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# ATN

German-American Trade News

SEPTEMBER-OCTOBER 1981

# Germany's Top 100 Industrial Corporations

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# Mercedes-Benz resale performance has made history. And history does have a way of repeating itself.

## Almost every automobile maker can give you a story on resale value. Read why Mercedes-Benz can give you a legend.

The older a car gets, the less value it retains–a simple law of economics.

But not all cars are equal under the law.

Some plummet in value after only two or three years. Some experience a more gradual slide. Others, a tiny few, so grudgingly yield their value that they are still worth a large portion of their original price several years down the road. And an even more select few have been shown to actually *appreciate* in value over time.

*1981 300 SD Turbodiesel Sedan. Will resale history repeat itself?*

Obviously, the shrewdest purchase is the car that shows promise of defying the law of economics as long and as strongly as possible. And knowing this, automobile makers today are hastening to reassure you about the historic resale performance of their cars.

One tactic is to cite the resale performance of the maker's most popular models from their best years–selecting, in a statistical process as delicate as picking a dozen perfect eggs, only the exceptional resale stories. And discarding the rest.

Mercedes-Benz could exploit this tactic to tell an astonishing story of resale performance. The 1955 300SL "Gullwing" Coupe, for example–worth $6,820 new and today worth up to $106,000. The 1967 250SL Roadster, priced when new at $6,485 and today at $16,000. Or the 280SE 3.5 Convertible of 1971, which in ten years has climbed from an original value of $14,000 to around $50,000–if one can be found for sale.

But the Mercedes-Benz resale achievement goes beyond a few such hand-picked rarities. It is more than this particular model or that specific series that has been shown to age so slowly, to almost defy the law of economics. Consider that Mercedes-Benz offers the American buyer a dazzling spectrum of automobiles to choose from–sedans and coupes in both diesel and gasoline versions, a turbodiesel sedan and station wagon, an exotic roadster; ten models in total. And consider that, as a whole, this current range of Mercedes-Benz models has been shown to retain *at least 80 percent of original value* after the first three years.

Remarkably uniform resale performance: that is the recent history of Mercedes-Benz automobiles. If you are contemplating the purchase of a new car, it is worthwhile to bear this history in mind.

Because history, after all, does have a way of repeating itself.

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**Engineered like no other car in the world**

Top to bottom: *Grand Mercedes 600 five-passenger limousine, 1972; 300SL Coupe, 1956; 280SL Roadster, 1969; 280SE 3.5 Convertible, 1971; SS Roadster, 1929.*

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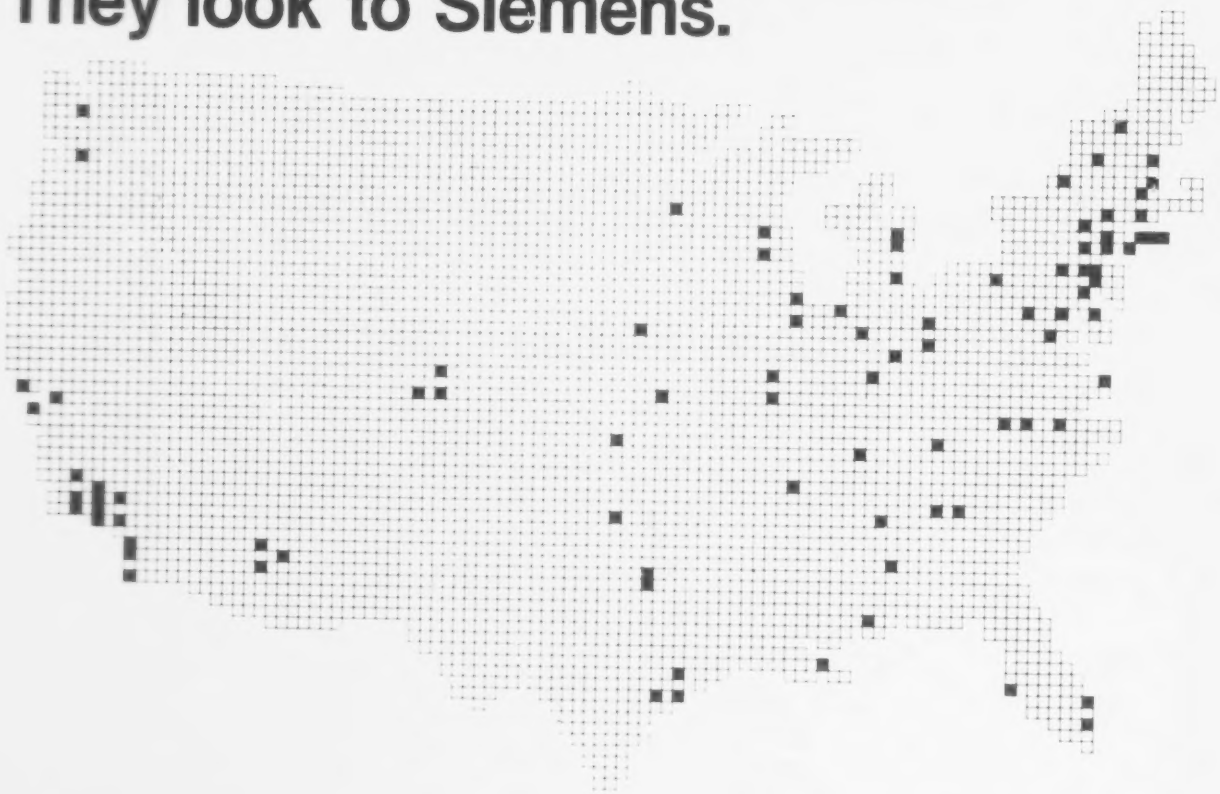

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## Siemens...On the scene.

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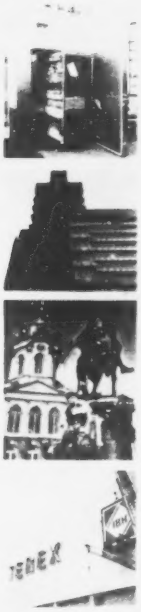


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# GATN

## German-American Trade News

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# Chamber Commentary

## The summer of our discontent

The summer just ended may have been nothing more than a balmy interlude between the hectic rites of last spring — most notably the French elections and the introduction of the Reagan economic program — and a cold economic winter that may or may not end with a thaw. For many business executives and government officials, though, there was a noticeable chill in the air, and it had nothing to do with the weather. Plainly, the palpable shivers were attributable to rising unemployment, stratospheric interest rates, and lethargic capital investment. Throw in the continuing crisis in Poland and the reasons for the unseasonable dip in the psychological thermometer become readily understandable.

This year's Alpbach Forum, an annual September conclave set in a picturesque Tyrolean village far removed from the turmoil of economic realities, provided a microcosm of the European pain profile. Participants agreed virtually unanimously on an invoice of mutually shared problems. There was also a consensus that further deficit spending was no solution, that Keynesian policies had, in fact, contributed importantly to a perceived dead-end. Beyond these insights, a mood of helplessness reigned.

The most pressing issue is unemployment. In point of fact, joblessness within the European Community as a whole has been rising steadily since 1973, but the rate of increase has mounted alarmingly over the past 12 months, leaping by 280,000 in September alone. Unemployment in the Community now stands at more than 9.4 million, or more than 8.5 percent of the work force. In September, the rates varied from an uncomfortable low of 5.4 percent in the Federal Republic to a staggering 12.4 percent in Great Britain, with the U.S. figure coming in at 7.5 percent.

Ivor Richard, a European Community Commissioner, recently said that "the overriding problem of the 1980's will be that of unemployment and the need to find ways of creating more jobs." Of immediate concern to Western Europeans are the social implications of this problem. Up to now, public unrest has been muted by a broad spectrum of unemployment programs, but the swelling numbers on the dole are creating an intolerable burden on deficit-plagued budgets.

Most experts agree that the current job crisis was catalyzed by the oil price explosion in 1973–1974 and the attendant slower economic growth that has followed. Here it is interesting to examine and compare one aspect of unemployment at large. According to rough estimates, 36 percent of German unemployed have been out of work for more than six months, compared with 12 percent in the United States. Apart from the greater mobility of American workers and the existence of large islands of vigorous economic activity in the U.S., e.g., the Rocky Mountain and Gulf Coast energy centers, this suggests that the problem in Europe is more structural than cyclical.

This of course raises a logical question. If a cyclical recovery will merely ameliorate the unemployment trauma, how can we accelerate the pace of structural adaptation? Self-interest will presumably push the quick and perceptive down the right path. Others, a minority we hope, will look to their governments as a drunkard uses a lamp post — to lean on.

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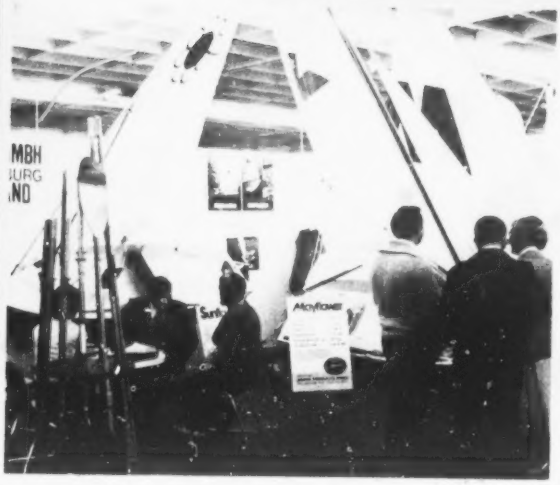
# Trade Fairs



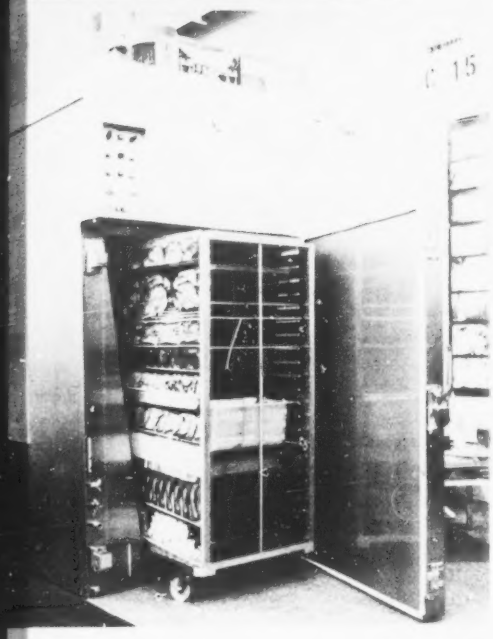
**Frankfurt Autumn Fair highlights**

Realistically restrained expectations ensured that the Fair progressed without undue tension, despite the present sales situation. Approx. 2% more trade visitors (altogether 72,000) came than in the autumn of last year, the trade showed a definitely lively interest and was as consequent as also circumspect in adding to its selection only items for which it can expect good demand for Christmas and beyond; it is otherwise concerned to maintain low inventory levels and careful tying-up of capital.

The majority of exhibitors arrived equipped to meet this with the "forward strategy" of a further raising of standards in their collections as well as an intensified offer of innovations even in autumn, together with numerous lively design ideas, and felt that the results of the Fair had fundamentally proved the worth of this tactic. At the same time, nonetheless, it was apparent that the buyers' selection criteria have sharpened still further, which means that the risk of the non-starter, whether as an individual product or in the form of entire offer groups, has grown. The present general market situation, on which it is scarcely possible to risk a decided forecast as to the prospects for the future, is reflected in the results of the exhibitor survey. In spite of slightly declining level of satisfaction, there were nonetheless six out of ten German firms (1980: seven) whose expectations for the domestic market had been met. With five out of ten the proportion of those satisfied with export business was in fact clearly above last year's level. The foreign exhibitors expressed their feelings along similar lines: 62% indicated "satisfaction" with the German market and 58% with contact to third countries, — virtually unchanged rates in relation to autumn 1980. Above-average rates overall came from the sectors arts and handicrafts, glass, china and ceramics as well as home decor; below-average on the other hand from lamps and lighting fixtures, jewelry, smokers' requisites, paperware and stationery.

The increase in visitors was the result above all of a slight rise in the proportion of guests from abroad. The foreign visitors came from 83 different states; the largest groups were noted from the Netherlands, Switzerland, Belgium, France and Austria. Growing attention from the USA — hand in hand with the more favorable rate of exchange for this economic area — demonstrated a more specific interest in the European markets. The Asian and Latin American continents were well represented among the buyers as ever, as was the Near East.

In the differentiated play between supply and demand, prices occupied an appropriate, but by no means dominating role. New price lists are not usual for the autumn exhibition date, but cost development had already led to price rises



in recent months for about half of the exhibitors.

### Music Fair Frankfurt

For all those wanting to obtain comprehensive information on everything involving musical instruments and sheet-music, a visit to the Music Fair Frankfurt is the best route. The opportunity is now offered for amateurs to look around the international Frankfurt Music Fair on the "general public day". The Fair is held every February and has long been the largest specialist market in the world. Apart from this "open-day" (last Fair day) for all those interested in the innovations offered by around 700 exhibitors from 30 countries, during the Fair — 13 to 17 February in 1982 — Frankfurt also offers an extensive series of music events, from opera to concerts through absolutely top-class rock and pop groups.

### "Frankfurt Music Prize"

The Music Fair Frankfurt will in future be the occasion for honoring "outstanding achievements in the national or international field of music" of a personality from the sphere of music practice, composition, or from the technical or pedagogic music sector. The "Frankfurt Music Prize", endowed by the Messe- und Ausstellungs-Gesellschaft Frankfurt am Main together with the Federation of German Music Instrument Manufacturers, is intended to emphasize the cultural significance of the international Music Fair Frankfurt, while at the same time contributing to the promotion of music and its role as an irreplaceable medium of emotional balance in our rationalistically oriented world. The "Frankfurt Music Prize" is endowed with DM 25,000 and will be presented by the Lord Mayor of the city of Frankfurt during the Music Fair Frankfurt.

Selection of the prize-winner will be made by an endowment council composed of members of the Conference of Presidents of the Music Colleges in the Federal Republic of Germany. They are appointed by the endowment board "Frankfurt Music Prize of the International Music Fair Frankfurt", whose members are the Lord Mayor of the city of Frankfurt (chairman), the chairman of the Federation of German Music Instrument Manufacturers, management of the Messe- und Austellungs-GmbH, as well as two representatives each of the German Music Council and the German music colleges. The newly endowed prize will be presented for the first time on the eve (12 February) of the opening of the Music Fair Frankfurt 1982.

### ANUGA Cologne 1981

One half of the foodstuffs worth DM 43.3 billion imported by the Federal Republic of Germany in 1980 came from the member states of the EC. This is shown by figures released by the Federal Association of the German Wholesale and Foreign Trade, and is significant in view of the recent ANUGA Cologne 1981. The ratios have not changed much since 1979. There has, however, been a considerable rise in the Federal Republic's exports. In 1980, German firms exported foodstuffs worth DM 18.5 billion in all. The total in 1979 had been DM 15.7 billion.

In 1979, the Federal Republic sold food worth DM 10.6 billion in EC countries. The figure climbed to DM 11.7 billion in 1980. Exports to the rest of the world, too, were expanding, the value of food exports rising from DM 5.1 billion in 1979 to DM 6.8 billion in 1980.

These data do not include the transactions of German foreign trade firms where the merchandise flows do not affect German foreign trade statistics. Third-country trade (not going through the Federal Republic) is gaining in importance and placing heavy demands on the firms engaged in this sector. German foreign trade firms are very successful in third-country trade, because they have worldwide contacts, establishments in nearly all countries of the world, extensive knowledge of commodity markets and good business relations everywhere.

An important activity node in the international food trade is what the ANUGA Cologne — World Food Market — has come to be over the years. At this year's event, held from October 10 to 15, 1981,

# 1982

# Messe Frankfurt.

## Business takes off here.

- **Heimtextil** 13.–17.1.1982
  International Trade Fair for Home Textiles and Household Textiles
- **IMA** 21.–24.1.1982
  International Amusement and Vending Trade Fair
- **Musikmesse Frankfurt** 13.–17.2.1982
  Music Fair Frankfurt
  International Trade Fair Musical Instruments, Musical Accessories, Music Publishers
- **Internationale Frankfurter Messe** 27.2.–3.3.1982
  Frankfurt International Fair
  International Trade Fair for Consumer Goods
- **4 x bau frankfurt** 20.–28.3.1982
  Building Trade Exhibition
- **Internationale Pelzmesse Frankfurt** 17.–21.4.1982
  International Fur Fair Frankfurt
- **47. interstoff** 4.–7.5.1982
  Trade Fair for Clothing Textiles
- **ACHEMA '82** 6.–12.6.1982
  20th Chemical Engineering Exhibition
- **Internationale Frankfurter Messe** 28.8.–1.9.1982
  Frankfurt International Fair
  International Trade Fair for Consumer Goods
- **automechanika** 14.–19.9.1982
  International Trade Fair for Equipment for Motor Car Workshops and Service Stations, Motor Car Spare Parts and Accessories.
- **Frankfurter Buchmesse** 6.–11.10.1982
  Frankfurt Book Fair
- **HOGA** 23.–29.10.1982
  Trade Fair for the Hotel and Catering Trade Culinary Art, Delicatessen-Foods, Fast-Food
- **48. interstoff** 2.–5.11.1982
  Trade Fair for Clothing Textiles
- **Touristica '82** 13.–21.11.1982
  with boat, trailer, camping

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countries and companies seeking to follow on from their successes in previous years or searching for new ways to future growth again found the partners they need at the ANUGA in Cologne.

### 23rd SPOGA Cologne 1981

Largely satisfactory — in some segments even good — Fair business was reported at the four-day SPOGA — International Trade Fair for Sports Goods, Camping Equipment and Garden Furniture — which closed on Tuesday, September 15, 1981, in Cologne. Fair business centered round exports, which were given a boost by the heavy attendance of buyers and traders from other European countries and from overseas. Business on the German market was at the expected levels. In places, however, foreign exhibitors noted a greater willingness to place orders among German buyers.

Some 30,000 trade visitors from 73 countries, including 13,000 from outside Germany, were given information on the product ranges of 1,423 exhibiting firms from 41 countries.

The United States sent 53 firms exhibiting sports goods of all kinds, sportswear, fishing supplies and camping equipment. 14 of the American firms took part in a group display organized by the German-American Chamber of Commerce, New York. The American exhibitors were largely first-timers, and their expectations were fulfilled in part only. Business was adversely affected by the still high exchange rate of the dollar. Many articles were examined with interest, but the price proved to be an impediment to doing business. Nonetheless, there were transactions, especially in the case of novelties. These included diving equipment and sports bags, rucksacks, sports prizes and fitness training equipment, but also equipment and tackle for angling and big game fishing. Numerous contacts established at the Fair suggest an expansion of exports.

### "dentechnica '82" in Cologne

The German Dental Industry Association (VDDI) and the Cologne Trade Fair have begun their preparations for "dentechnica '82", being held from 21st to 24th April, 1982 during the 1982 International Dental Technicians' Congress. Registration applications already received from relevant industrial companies from all over the world indicate that Hall 13, Ground Floor, with 15,000 square meters of exhibition space will be completely filled. A total of some 200 companies from 11 countries are expected to take part, with foreign participation anticipated at about 15 percent.

One focus of the fair "dentechnica '82" will be on the field of alloys for crown and bridge work, and on the processing of those alloys. Another focus will be materials for the facing of fixed artificial dentures. And the demonstration of equipment and working methods available should go further in answering the question "ceramic or plastic?". The quality of products in both categories has improved greatly in recent years.

Electronic and fully automated equipment has also brought advances in casting techniques, and ensure that the high quality provided by the manufacturer is maintained by optimal processing. ■


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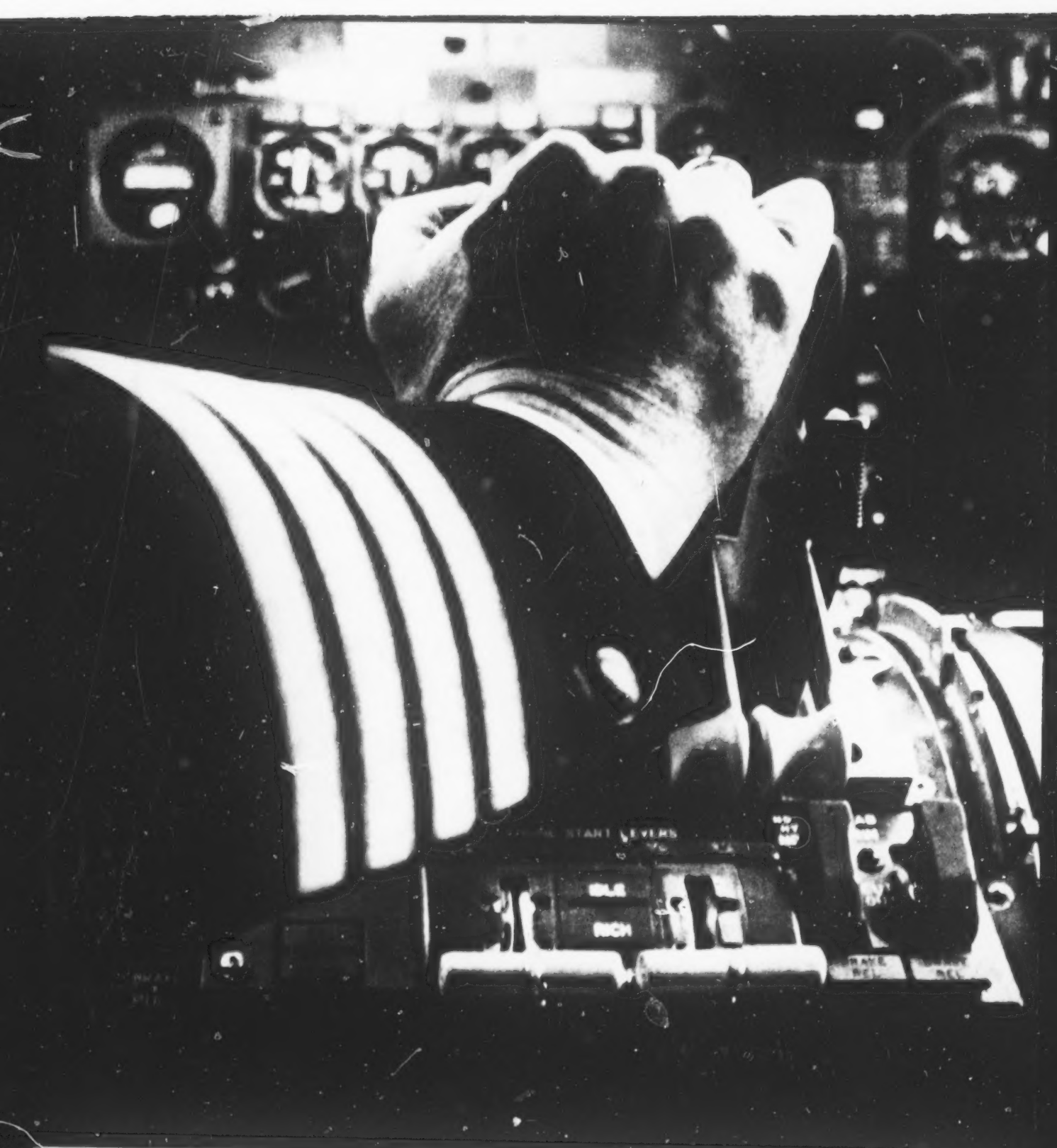

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# German-American Economic Review in Figures

| | Federal Republic of Germany | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | | | 1979 | 1980 | 1981 | | |
| | | | Apr. | May | June | | | Apr. | May | June |
| **FOREIGN TRADE** (in mil. $) | | | | | | | | | | |
| Imports | 159,646 | 187,933 | 14,010 | 12,952 | 12,917 | 207,072 | 241,461 | 22,262 | 21,291 | 21,967 |
| Exports | 171,801 | 192,901 | 15,539 | 13,638 | 13,621 | 181,646 | 220,684 | 19,869 | 18,869 | 19,870 |
| Balance on merchandise trade | 12,158 | 4,968 | 1,529 | 686 | 704 | -25,431 | -20,838 | -2,444 | -2,422 | -2,097 |
| **U.S.-GERMAN TRADE** (in mil. $) | | | | | | | | | | |
| U.S. imports from Germany | 11,337 | 11,821 | 946 | 870 | 911 | 10,955 | 11,681 | 1,011 | 972 | 918 |
| (+)(-) % from previous year | 12.9 | 4.3 | 12.7 | 17.1 | 4.3 | 10.0 | 6.6 | 8.2 | 13.0 | 7.5 |
| U.S. exports to Germany | 11,081 | 14,161 | 1,084 | 1,102 | 1,026 | 8,272 | 10,732 | 844 | 923 | 792 |
| (+)(-) % from previous year | 27.0 | 27.8 | 9.5 | 11.2 | 17.3 | 27.4 | 29.7 | 15.9 | 4.1 | 15.2 |
| Balance on U.S.-German trade | 256 | 2,340 | 138 | 232 | 115 | -2,683 | -949 | -167 | -49 | -126 |
| **INDUSTRIAL PRODUCTION** | | | | | | | | | | |
| (+)(-) % from previous year | 3.4 | -0.4 | -2.3 | -0.8 | -2.2 | 4.4 | -3.5 | 2.6 | 6.3 | 8.1 |
| Iron and steel | 9.0 | -3.3 | -12.6 | -7.0 | -0.8 | 0.0 | -18.9 | 7.9 | 25.2 | 31.7 |
| Machines, exc. elec. | 4.8 | 3.4 | 7.2 | 5.8 | 0.9 | 6.5 | -0.7 | 5.4 | 7.5 | 10.5 |
| Electrical machinery and equipment | 1.1 | 3.2 | -2.2 | 4.9 | -1.6 | 9.8 | -1.3 | 0.8 | 3.3 | 7.6 |
| Chemicals | 6.7 | -4.0 | 0.1 | -0.8 | 1.4 | 6.6 | -2.4 | 5.6 | 11.2 | 15.3 |
| Road motor vehicles | 7.5 | -4.6 | -4.2 | 0.6 | -2.3 | -5.8 | -25.7 | 13.1 | 28.4 | 28.8 |
| Textiles | 3.8 | -0.9 | -8.9 | -9.7 | -8.6 | 4.6 | -5.7 | -2.9 | -1.0 | — |
| Apparel | -0.1 | -5.1 | -5.8 | 1.4 | -7.8 | -2.6 | -4.4 | -7.0 | -5.0 | — |
| **LABOR MARKET** | | | | | | | | | | |
| Population (in mil.) | 61.4 | 61.7 | — | — | — | — | 227.7 | 229.3 | 229.4 | 229.6 |
| Civilian labor force (in 1000) | 25,573 | 25,795 | — | — | — | 102,908 | 104,719 | 106,722 | 107,406 | 106,176 |
| Unemployed (in 1000) | 876 | 889 | 1,146 | 1,110 | 1,126 | 5,943 | 7,448 | 7,746 | 8,171 | 7,784 |
| Unemployment rate (in %) | 3.8 | 3.8 | 4.9 | 4.8 | 4.8 | 5.8 | 7.1 | 7.3 | 7.6 | 7.3 |
| Gross hourly wages in manufacturing (in DM or $) | 12.55 | 13.41 | 13.98 | — | — | 6.69 | 7.2 | 7.90 | 7.95 | 7.98 |
| (+)(-) % from previous year | 5.6 | 6.9 | 5.1 | — | — | 8.4 | 10.9 | 11.1 | 11.2 | 10.5 |
| **PRICES** (+)(-) % from previous year | | | | | | | | | | |
| Consumer Price Index | 4.1 | 5.5 | 5.6 | 5.6 | 5.5 | 11.3 | 13.5 | 10.0 | 9.8 | 9.6 |
| Producer prices for ind. products | 4.8 | 7.5 | 6.8 | 7.0 | 7.3 | 12.9 | 16.1 | 11.6 | 11.8 | 11.4 |
| **CURRENCY EXCHANGE RATES** (avg.) | | | | | | | | | | |
| Value of $1.00 in DM | 1.8330 | 1.8158 | 2.1602 | 2.2915 | 2.3758 | | | | | |
| Value of DM 1.00 in $ | | | | | | 0.5456 | 0.5509 | 0.4622 | 0.4360 | 0.4205 |

| | 1979 | 1980 | 1980 — 1981 | | | | 1979 | 1980 | 1980 — 1981 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | III | IV | I | II | | | III | IV | I | II |
| **NATIONAL ACCOUNTS** | | | | | | | | | | | | |
| Gross National Product at current prices (in bil. DM or $) | 1,400 | 1,497 | 1,523 | 1,608 | 1,431 | 1,519 | 2,414 | 2,626 | 2,637 | 2,731 | 2,853 | 2,881 |
| (+)(-) % from previous year, real terms | 4.5 | 1.8 | 1.1 | 0.7 | -2.0 | -0.6 | 3.2 | -0.2 | -1.1 | -0.3 | 1.0 | 3.0 |
| Balance on current account (in mil. DM or $) | -9,644 | -29,832 | -12,670 | -4,790 | -9,138 | -5,296 | 1,414 | 3,723 | 4,975 | 1,390 | 3,087 | 1,100 |
| Monetary reserves (in mil. $) | | | | | | | | | | | | |
| Direct investment, cumulative at period end (in mil. DM or $) | 60,455 | 53,141 | 56,717 | 53,141 | 56,614 | 54,474 | 18,950 | 26,760 | 23,000 | 26,760 | 30,410 | 29,580 |
| Direct investment abroad | 66,002 | 74,162 | — | 74,162 | — | — | 186,760 | 213,468 | — | 213,468 | — | — |
| — German investment in the U.S. | 12,283 | 15,664 | — | 15,664 | — | — | | | | | | |
| — U.S. investment in Germany | | | | | | | 13,521 | 15,393 | — | 15,393 | — | — |
| Foreign direct investment | 55,242 | 57,616 | — | 57,616 | — | — | 54,462 | 65,483 | — | 65,483 | — | — |
| — U.S. investment in Germany | 20,140 | 20,312 | — | 20,312 | — | — | | | | | | |
| — German investment in the U.S. | | | | | | | 5,665 | 5,290 | — | 5,290 | — | — |

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium für Wirtschaft; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System; International Monetary Fund

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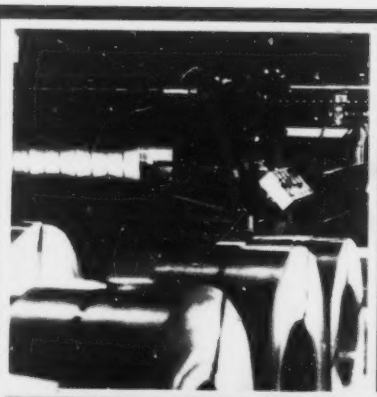
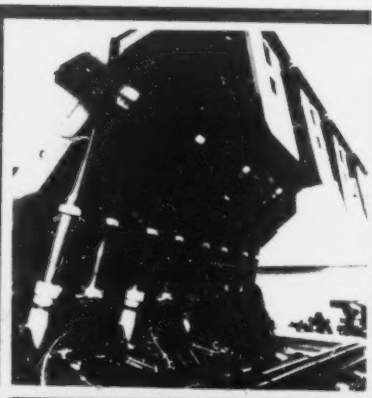


# Our Activities



**1**

**Domestic Steel Sales**

THYSSEN STEEL CO.

Eastern Division · New York
Southwestern Division · Houston
West Coast Division · Los Angeles

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Wire and Wire Products

Thyssen Specialty Steels
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Stainless, Tool and
Bearing Steels

**5**

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Marion, IL

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Thyssen Metal Service/Southwest
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GATN

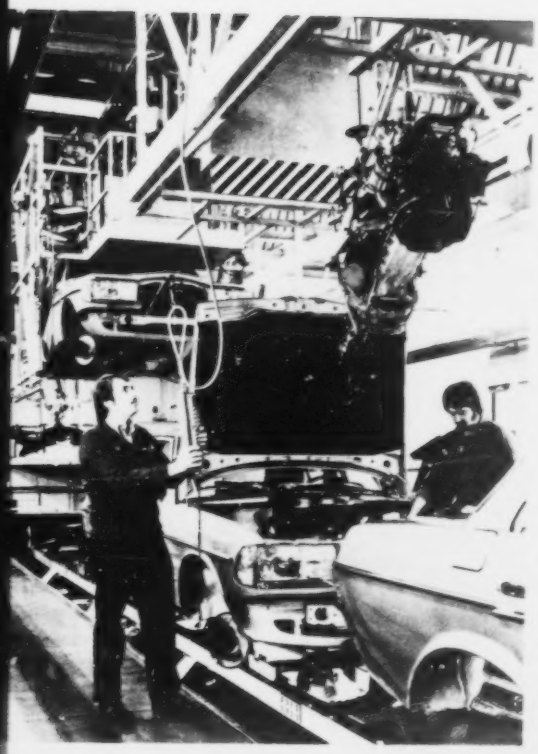
# Germany's Top 100 Industrial Corporations

Some two decades ago, the peak of the German industrial Alps was occupied by two corporations whose names had acquired virtually a generic association with their respective specialties: the steel producer Krupp and the electrical engineering giant Siemens. Though Siemens has succeeded in maintaining a foothold in the topmost rankings of Germany's industrial hierarchy, Krupp has long since slid to lower elevations. Veba, the German energy conglomerate, has dominated the No. 1 spot for six years, including the 1980 reporting year. Still, it's useful to keep in mind that firms of this magnitude have never truly represented the profile of German industry. The median Germany company today is closely held, with 200 employees and annual sales of DM 25 million.

While the huge corporations dominate the German industrial landscape with their massive configurations, they also tend to obscure the hills and lowlands occupied by small and medium-size companies, which still account for over 90 percent of manufacturing enterprises and one-third of all persons employed in this sector. In many cases, medium-size firms enjoy just as fine a reputation in their speciality as their larger rivals. Nevertheless, the huge corporations form the points of the German industrial compass in terms of its productive strength and its international image. For better or worse, their fortunes determine the stability of thousands of jobs.

## Ongoing concentration

The lower boundary of firms considered to be "large" begins with annual sales of DM 25 million; some 5,000 companies fall into this category. Within this group a continuing process of concentration and a related displacement of market power has been obvious for some time. Today, these five thousand companies account for 80 percent of total industrial sales of DM 1.196 trillion in the Federal Republic. The top ten alone collectively registered revenues of DM 297 billion of this amount, or approximately one-quarter. If one includes the first 20, this share rises to more than one-third (37



percent). Clearly, many companies in the upper reaches of the German industrial hierarchy have achieved a size and stance vis-a-vis their domestic competition somewhat comparable to the American industrial scene in the mid-Fifties.

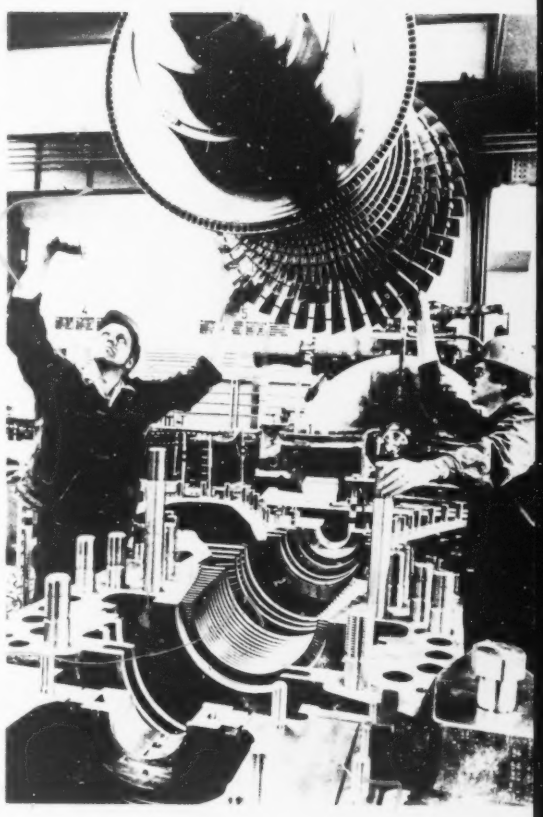
Veba has executed two historic leaps in two consecutive years; in 1979 it passed even the German Postal Service in revenues and last year its annual sales leaped well over the stratospheric level of DM 40 billion. A glance at the table shows that last year's results were twice as great as those of the tenth largest company, the Kloeckner Group and 13 times larger than 50-ranked Schering. By comparison, in the United States, top ranking Exxon booked four times the revenue of General Electric, the tenth ranking corporation, and 16 times as much as Esmark (No. 15).

As in the United States, the phalanx of the corporate giants has pretty much coalesced. And these corporations, which traditionally produced and sold the bulk of their products in Germany, have in the meantime spread over the globe. For many, sales abroad are well in excess of domestic revenues. In this category, firms such as VW, Daimler, and the chemical Big Three, BASF, Hoechst and Bayer, immediately come to mind.

| RANK 1980 | RANK 1979 | FIRM | PRODUCTS | SALES in mil. DM 1980 | SALES in mil. DM 1979 | EMPLOYEES in 1000 1980 | EMPLOYEES in 1000 1979 |
|---|---|---|---|---|---|---|---|
| 1 | 1 | Veba | Holding company | 41 954 | 36 606 | 83.9 | 81.4 |
| 2 | 2 | Volkswagenwerk | Cars, trucks | 33 288 | 30 707 | 257.9 | 239.7 |
| 3 | 3 | Siemens | Electrical equipment | 31 960 | 28 022 | 344.0 | 334.0 |
| 4 | 5 | Daimler-Benz | Cars, trucks | 31 054 | 27 367 | 183.4 | 180.7 |
| 5 | 4 | BASF | Chemicals | 29 991 | 28 022 | 116.5 | 117.2 |
| 6 | 6 | Hoechst | Chemicals | 29 915 | 27 080 | 186.9 | 182.7 |
| 7 | 7 | Bayer | Chemicals | 28 826 | 26 022 | 181.6 | 181.0 |
| 8 | 8 | Thyssen AG<br>Volkswagenwerk (No. 2)<br>Siemens (No. 3)<br>Thyssen (No. 8) | Iron, steel | 27 128<br>25 180<br>24 986<br>24 154 | 25 358<br>24 257<br>22 443<br>23 076 | 152.1<br>118.8<br>127.7 | 157.3<br>113.4<br>128.6 |
| 9 | 11 | Deutsche BP<br>BASF (No. 5) | Petroleum | 22 272<br>21 737 | 19 780<br>20 489 | 10.1<br>— | 9.9<br>— |
| 10 | 9 | Kloeckner Group<br>Veba-Oel AG (No. 1) | Steel, machinery | 20 594<br>19 685 | 17 598<br>16 523 | 69.9<br>23.0 | 71.7<br>23.4 |
| 11 | 13 | RWE | Utility | 18 262 | 15 669 | 68.0 | 65.4 |
| 12 | 10 | Deutsche Shell | Petroleum | 17 766 | 15 744 | 5.1 | 5.0 |
| 13 | 14 | Esso AG | Petroleum | 17 695 | 15 275 | 4.6 | 4.4 |
| 14 | 12 | Ruhrkohle<br>Bayer (No. 7) | Coal | 16 422<br>15 883 | 16 222<br>13 662 | 136.8 | 134.2 |
| 15 | 16 | Gutehoffnungshuette | Iron, steel, machinery | 15 417 | 13 617 | 86.0 | 84.6 |
| 16 | 15 | AEG-Telefunken<br>Hoechst (No. 6) | Electrical equipment | 15 141<br>14 853 | 14 208<br>14 097 | 145.2 | 154.1 |
| 17 | 17 | Krupp | Mining, steel, machinery | 13 919 | 12 787 | 85.7 | 86.2 |
| 18 | 18 | Mannesmann<br>Gutehoffnungshuette (No. 15)<br>AEG-Telefunken (No. 16) | Mining, iron, steel | 13 110<br>12 367<br>12 268 | 12 500<br>11 004<br>11 939 | 103.5 | 105.8 |
| 19 | 21 | Robert Bosch GmbH | Electrical equipment | 11 809 | 11 804 | 121.6 | 120.5 |
| 20 | 22 | Quandt Group<br>Mannesmann (No. 18)<br>RWE (No. 11) | Industrial holding | 10 961<br>10 411<br>9 751 | 10 200<br>10 434<br>9 002 | 64.6<br>22.4 | —<br>23.9 |
| 21 | 24 | Metallgesellschaft | Mining, metals, chemicals | 9 417 | 8 600 | 10.3 | — |
| 22 | 45 | Preussag | Petroleum, mining, machinery | 9 412 | 8 162 | — | — |
| 23 | 19 | Adam Opel AG | Cars, trucks | 9 224 | 10 919 | 59.9 | 67.3 |
| 24 | 32 | Ruhrgas<br>Metallgesellschaft (No. 21) | Gas, utility | 9 122<br>9 047 | 6 244<br>7 891 | 2.9<br>27.2 | 2.9<br>27.3 |
| 25 | 27 | Deutsche Texaco<br>Wintershall (No. 5) | Petroleum | 9 026<br>8 850 | 7 359<br>7 900 | 4.8<br>16.9 | 4.8<br>16.7 |
| 26 | 29 | Mobil Oil in Deutschland | Petroleum | 8 763 | 6 792 | 2.4 | 2.4 |
| 27 | 20 | Ford-Werke AG | Cars, trucks | 8 692 | 10 911 | 49.8 | 57.8 |
| 28 | 34 | Degussa | Metals, chemicals | 8 649 | 6 058 | 20.6 | 20.5 |
| 29 | 28 | Salzgitter | Mining | 8 578 | 7 195 | 56.6 | 55.7 |
| 30 | 23 | Flick Group<br>BMW (No. 20) | Industrial holding | 8 427<br>8 147 | 8 740<br>7 407 | 46.9<br>43.2 | 46.9<br>43.9 |
| 31 | 26 | Deutsche Unilever | Fats, oils, soaps | 8 096 | 7 614 | 35.3 | 35.0 |
| 32 | 25 | Hoesch-Werke<br>MAN (No. 13)<br>Bosch GmbH (No. 19)<br>Degussa (No. 28) | Steel | 7 992<br>7 843<br>7 720<br>7 437 | 7 658<br>7 070<br>7 181<br>5 120 | 46.6<br>63.6<br>64.2<br>33.2 | 49.1<br>62.5<br>63.1<br>32.9 |
| 33 | 30 | IBM Deutschland | Business machines, typewriters | 7 360 | 6 593 | 26.4 | 26.3 |
| 34 | 33 | Henkel Group | Chemicals | 6 899 | 6 121 | 33.6 | 32.7 |
| 35 | 35 | Philipp Holzmann AG<br>Krupp-Huettenwerke (No. 17) | Construction | 6 266<br>6 164 | 5 774<br>5 284 | 43.4<br>40.9 | 41.1<br>40.3 |
| 36 | 36 | Hochtief AG | Construction | 6 079 | 5 034 | 31.1 | 31.3 |
| 37 | 31 | Reemtsma<br>Haniel (No. 1)<br>Preussenelektra (No. 3)<br>Kloeckner Werke (No. 10) | Tobacco products | 6 002<br>5 699<br>5 626<br>5 561 | 6 408<br>5 479<br>5 066<br>5 056 | 11.7<br>22.6<br>13.0<br>11.8 | 14.1<br>22.5<br>14.9<br>11.7 |
| 38 | 37 | Saarberg Group<br>Audi NSU (No. 2) | Mining | 5 512<br>4 961 | 5 002<br>4 174 | 32.6<br>29.1 | 30.8<br>29.8 |
| 39 | 38 | Viag<br>Thyssen Industrie (No. 8)<br>KHD (No. 30) | Holding company | 4 887<br>4 661<br>4 621 | 4 302<br>4 042<br>4 250 | 26.2<br>19.2<br>29.7 | 24.6<br>19.4<br>31.1 |
| 40 | 41 | Deutsche Babcock<br>UK Wesseling (No. 11)<br>Agfa-Gevaert (No. 7) | Machinery | 4 567<br>4 523<br>4 405 | 4 031<br>3 748<br>3 636 | 31.2<br>2.8<br>32.0 | 28.7<br>2.7<br>31.8 |
| 41 | 39 | Deutsche Philips<br>Mannesmannroehren (No. 18) | Electronics | 4 386<br>4 314 | 4 213<br>4 114 | 28.0<br>29.8 | 29.0<br>31.4 |
| 42 | 42 | B.A.T. Cigaretten Fabriken | Tobacco products | 4 100 | 3 995 | 3.8 | 3.9 |
| 43 | 44 | Vereinigte Elektrizitaetswerke Westfalen (VEW) | Utility | 4 031 | 3 398 | 7.5 | 7.5 |
| 44 | 43 | Brown, Boveri & Cie | Electrical equipment | 4 018 | 3 968 | 37.6 | 37.2 |
| 45 | 40 | Enka-Glanzstoff<br>Henkel KGaA (No. 33)<br>Saarbergwerke (No. 38)<br>Buderus (No. 80)<br>Kraftwerk Union (No. 4)<br>Preussag (No. 22) | Chemicals, textiles | 3 950<br>3 948<br>3 919<br>3 826<br>3 770<br>3 553 | 4 100<br>3 666<br>3 389<br>4 109<br>3 005<br>3 179 | 34.1<br>24.8<br>22.6<br>13.6<br>17.0 | 34.7<br>—<br>22.8<br>22.8<br>13.8<br>16.8 |
| 46 | 46 | Standard Electric Lorenz (SEL) | Electrical equipment | 3 453 | 3 117 | 33.2 | 33.0 |
| 47 | 49 | Elf Mineraloel | Petroleum | 3 306 | 2 952 | 1.0 | 0.9 |
| 48 | 57 | Messerschmitt-Boelkow-Blohm | Aircraft | 3 304 | 2 660 | 26.3 | 24.5 |
| 49 | 47 | Deutsche Saint-Gobain Group | Glass | 3 290 | 3 036 | 26.4 | 26.8 |
| 50 | 56 | Schering<br>Brown, Boveri (No. 44) | Pharmaceuticals | 3 220<br>3 119 | 2 703<br>3 128 | 21.3<br>25.4 | 20.2 |

| RANK 1980 | RANK 1979 | FIRM | PRODUCTS | SALES in mil. DM 1980 | SALES in mil. DM 1979 | EMPLOYEES in 1000 1980 | EMPLOYEES in 1000 1979 |
|---|---|---|---|---|---|---|---|
| 51 | 50 | Werhahn Group | Industrial holding co. | 3 018 | 2 900 | 11.3 | 11.3 |
| 52 | 54 | Oetker | Food products | 2 950 | 2 727 | — | 11.9 |
| 53 | 52 | Deutsche Nestlé | Coffee, cocoa | 2 942 | 2 769 | 12.7 | 12.8 |
| | | VAW (No. 19) | | 2 941 | 2 721 | 16.9 | 16.9 |
| 54 | 55 | Deutsche Solvay Group | Chemicals | 2 886 | 2 705 | 13.8 | 14.5 |
| 55 | 59 | Boehringer Ingelheim | Pharmaceuticals, chemicals | 2 864 | 2 583 | 21.0 | 21.0 |
| 56 | 58 | Conti-Gummi | Rubber products | 2 858 | 2 623 | 18.3 | — |
| 57 | 60 | Ruetgers | Synthetics | 2 842 | 2 527 | 12.2 | 11.8 |
| | | Mannesmann-Demag (No. 18) | | 2 822 | 2 591 | 23.0 | 22.8 |
| 58 | 53 | Grundig | Electronic equipment | 2 772 | 2 956 | 38.4 | 36.0 |
| 59 | 51 | Brinkmann | Tobacco products | 2 764 | 2 786 | 4.5 | 4.6 |
| | | Persil-Salzgitter (No. 29) | | 2 671 | 2 444 | 17.2 | 16.9 |
| | | Thyssen Edelstahl (No. 8) | | 2 619 | 2 461 | 15.8 | 16.2 |
| 60 | 65 | Strabag Bau AG | Construction | 2 591 | 2 257 | 19.4 | 19.4 |
| | | Dynamit Nobel (No. 40) | | 2 534 | 2 466 | 14.8 | 16.9 |
| 61 | 80 | Norddeutsche Affinerie | Refined metals | 2 506 | 1 822 | — | — |
| 62 | 61 | Stahlwerke Roechling-Burbach | Iron, steel | 2 443 | 2 415 | 21.7 | 22.0 |
| 63 | 63 | Bilfinger + Berger | Construction | 2 439 | 2 301 | 24.0 | 24.1 |
| 64 | 69 | Bosch-Siemens Hausgeraete | Household appliances | 2 437 | 2 199 | 13.4 | 13.7 |
| | | Stollwerck (No. 14) | | 2 431 | 2 060 | 4.1 | 4.0 |
| 65 | 64 | Polygram | Records, tapes | 2 417 | 2 275 | 13.4 | — |
| 66 | 67 | Bayernwerk | Utility | 2 410 | 2 227 | 7.1 | 7.4 |
| 67 | | EC Erdoelchemie Koeln | Chemicals | 2 400 | 1 434 | 3.0 | 3.0 |
| 68 | 62 | Rorf Group | Holding company | 2 349 | 2 298 | 3.8 | 3.9 |
| 69 | 66 | Zahnradfabrik Friedrichshafen | Machinery | 2 379 | 2 243 | 24.0 | 22.9 |
| 70 | 79 | Leybold-Heraeus | Vacuum metallurgy | 2 356 | 1 830 | 6.3 | 6.3 |
| 71 | 71 | Carl Zeiss Stiftung | Optical, precision products | 2 339 | 2 050 | 30.7 | 29.7 |
| | | Ruetgers (No. 57) | | 2 314 | 2 015 | 12.2 | 11.8 |
| 72 | 74 | Kugelfischer | Ball + roller bearings | 2 291 | 1 988 | 30.2 | 27.9 |
| 73 | 68 | Magirus-Deutz AG | Trucks | 2 283 | 2 210 | 12.5 | 12.6 |
| 74 | 75 | Papierwerke Waldhof-Aschaffenburg | Paper + Paper products | 2 265 | 1 897 | 15.0 | 11.1 |
| | | Rheinische Braunkohle (No. 11) | | 2 263 | 1 936 | 16.6 | 16.3 |
| 75 | 70 | Freudenberg | Leather, rubber, plastics | 2 246 | 2 095 | 23.9 | 23.0 |
| 76 | 72 | Linde | Chemicals, machinery | 2 175 | 2 012 | 15.8 | 15.7 |
| | | Schering (No. 60) | | 2 174 | 1 960 | | |
| 77 | 77 | Deckerhoff & Widmann | Energy, transportation | 2 170 | 1 855 | 15.6 | 15.4 |
| | | Rheinische Elektra (No. 31) | | 2 161 | 2 230 | 3.4 | 3.4 |
| 78 | 85 | Philip Morris | Tobacco products | 2 125 | 1 727 | 2.1 | 1.9 |
| 79 | | Agip | Holding company | 2 105 | 1 921 | 0.3 | 0.3 |
| 80 | 81 | Panavia Aircraft GmbH | Military aircraft | 2 100 | 1 798 | — | — |
| | | E.H. Boehringer Sohn (No. 55) | | 2 083 | 1 830 | 14.4 | 14.4 |
| | | Mannesmann-Huette (No. 18) | | 2 036 | 1 971 | 9.6 | 10.5 |
| | | Feldmuehle (No. 10) | | 2 036 | 1 920 | 9.1 | 8.8 |
| 81 | 78 | Liebherr Group | Heavy machinery, construction | 2 002 | 2 006 | 12.6 | 12.1 |
| 82 | | Chevron Erdoel Deutschland | Petroleum | 2 000 | 1 682 | — | 0.3 |
| 83 | 82 | Merck | Pharmaceuticals | 1 990 | 1 763 | 19.2 | 18.9 |
| | | Kugelfischer (No. 72) | | 1 951 | 1 666 | 25.1 | 22.8 |
| | | Preussag (No. 22) | | 1 938 | 1 811 | | |
| | | Carl Zeiss Group (No. 71) | | 1 935 | 1 735 | | |
| 84 | 78 | Eschweiler Bergwerksverein | Metals | 1 919 | 1 841 | — | — |
| 85 | 84 | Deutsche Michelin | Tires | 1 916 | 1 746 | 10.4 | — |
| 86 | 85 | ITT Gesellschaft fuer Beteiligungen | Industrial holding company | 1 915 | 1 765 | 14.3 | 14.3 |
| 87 | 76 | Dillinger Huette | Mining | 1 894 | 1 868 | 5.3 | 5.2 |
| | | NSK (No. 1) | | 1 884 | 1 711 | 3.2 | 3.1 |
| 88 | 88 | Deutsche Contigas | Utility, mining | 1 843 | 1 590 | 1.7 | — |
| | | Fried. Krupp (No. 17) | | 1 829 | 1 700 | — | — |
| | | Rheinelektra (No. 34) | | 1 803 | 1 604 | 11.6 | 11.3 |
| | | Wacker (No. 6) | | 1 802 | 1 745 | — | — |
| 89 | 48 | Suedvieh-Suedfleisch Group | Meat, livestock | 1 800 | — | 1.3 | — |
| | | Enka AG (No. 43) | | 1 790 | 2 080 | 17.2 | 17.4 |
| 90 | 87 | Hamburgische Elektrizitaets-werke AG | Utility | 1 783 | 1 636 | 5.8 | 5.7 |
| 91 | 91 | Beiersdorf | Cosmetics, pharmaceuticals | 1 780 | 1 565 | — | — |
| 92 | 92 | EVS Energie-Versorgung Schwaben | Utility | 1 777 | 1 557 | 4.8 | — |
| 93 | 89 | Du Pont de Nemours | Chemicals | 1 760 | 1 577 | — | — |
| | | Veba Kraftwerke Ruhr (No. 1) | | 1 747 | 1 404 | 3.0 | 3.0 |
| 94 | 86 | Deutsche Marathon | Petroleum | 1 725 | 1 713 | 0.7 | 0.7 |
| 95 | 99 | Badenwerk | Electronics | 1 675 | 1 450 | 3.5 | 3.5 |
| 96 | 97 | Tchibo | Coffee | 1 674 | 1 459 | 3.8 | — |
| 97 | 94 | G. Bauknecht GmbH | Electrical equipment | 1 660 | 1 500 | 14.0 | — |
| | | Deutsche Babcock (No. 48) | | 1 638 | 1 347 | 10.2 | — |
| | | Lurgi (No. 23) | | 1 623 | 1 521 | 5.5 | 5.0 |
| 98 | 96 | VDO Group | Instruments | 1 615 | 1 470 | 20.0 | 20.0 |
| 99 | 93 | Joh. Jacobs & Co. GmbH | Coffee and food products | 1 612 | 1 538 | — | — |
| 100 | 98 | Fichtel & Sachs AG | Transmissions | 1 598 | 1 458 | 18.0 | 17.0 |
| | | Zahnradfabrik Friedrichshafen (No. 69) | | 1 590 | 1 508 | 14.8 | 14.3 |

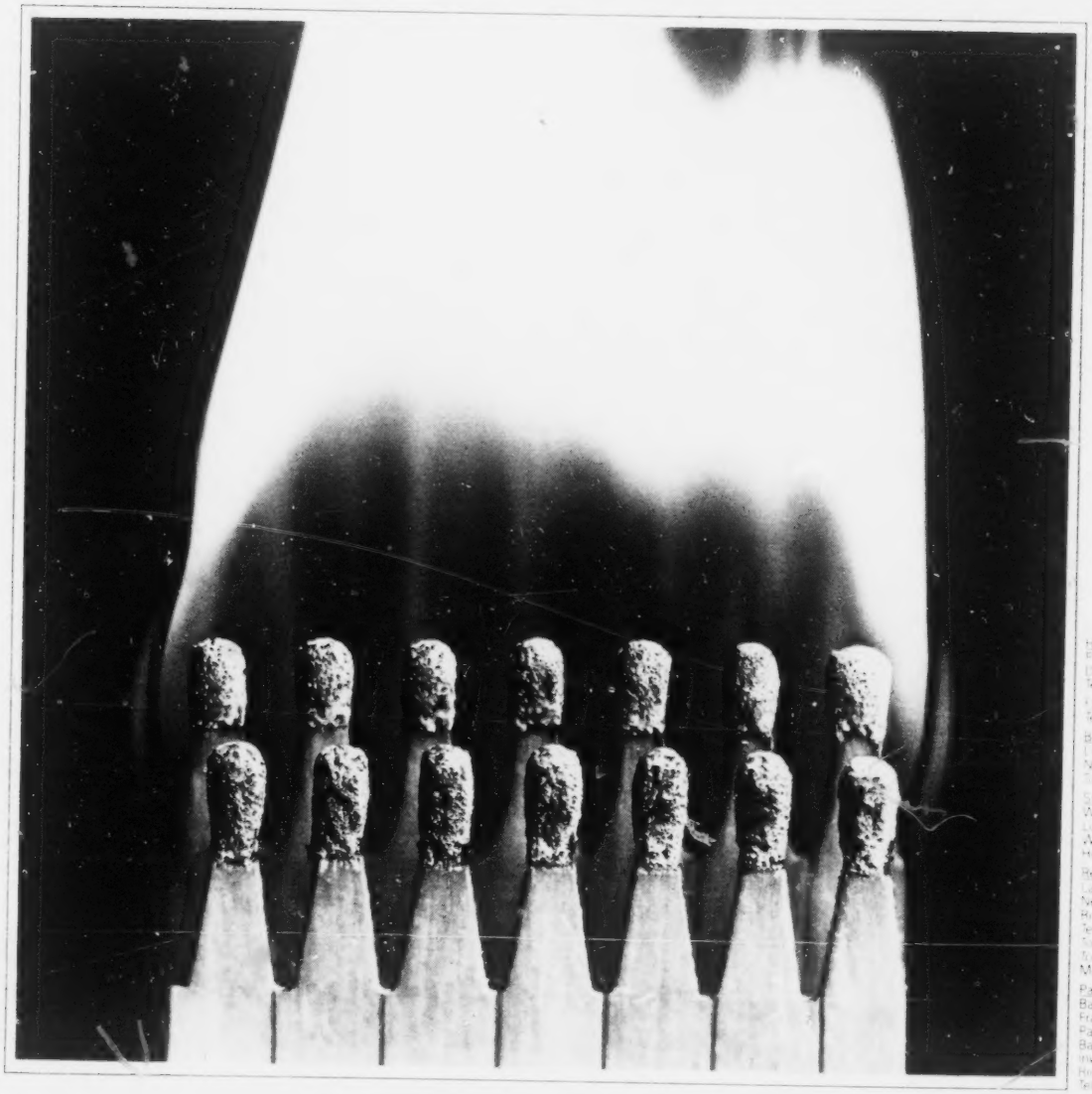
Source: Frankfurter Allgemeine Zeitung



Again, the American experience has found its counterpart in Germany. With the leap in oil prices inducing considerable repositioning within the ranks of the upper twenty: the oil companies have moved up and several auto manufacturers have dropped back.

Of course, these large companies not only draw upon their internal strengths to grow, they also buy a portion of their size. According to the German anti-trust authorities, Veba (50 percent owned by the government) effected 170 mergers and acquistions from 1973 to 1980, which also served to broaden the influence of the government in the economy. BP followed with 120 in the same period, and the giant utility RWE (also partially state owned), showed 107 acquisitions.

1980 witnessed several takeovers which occured too late to be incorporated in the sales column of our table. The most spectacular was undoubtedly the sale of the Reemtsma Group to Tchibo Coffee, owned by the Herz family, a transaction which spotlights the simultaneous rise and fall of two old business families. In this instance, Jan Phillipp Reemtsma, the young but tired scion of an old name, abdicated in favor of more agile newcomers. To be sure, the latter



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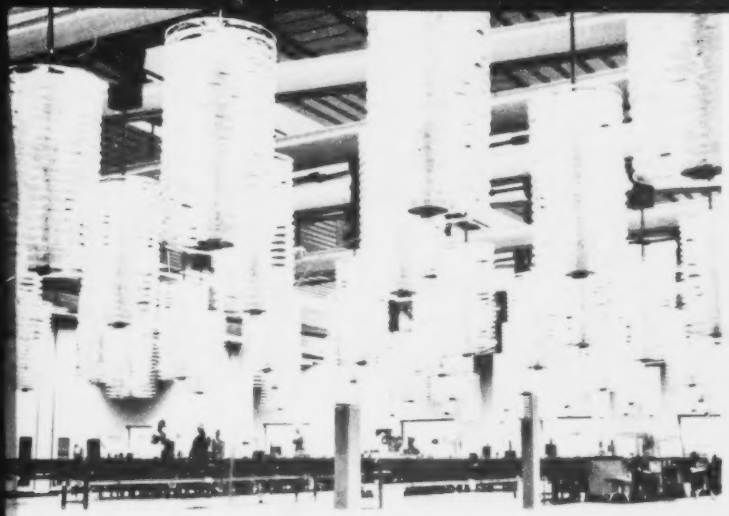

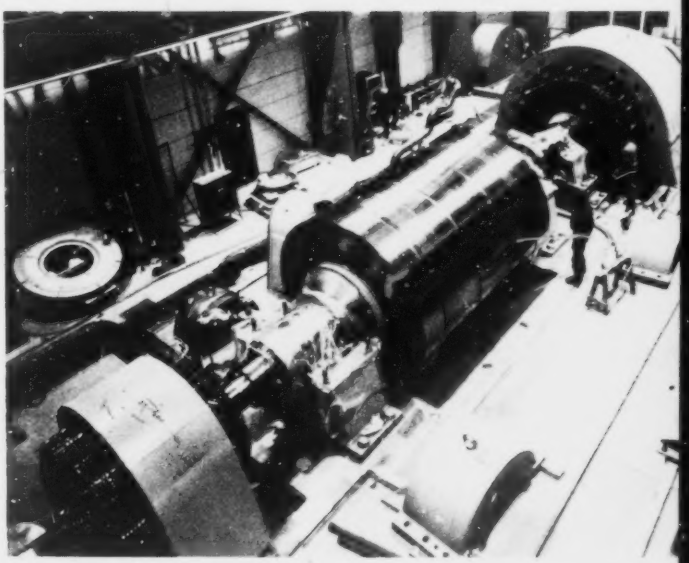

**Germany's Largest Employers**

| *Rank* | *Name* | *Employees 1980* |
|---|---|---|
| 1 | Siemens | 344,000 |
| 2 | Volkswagenwerk | 257,900 |
| 3 | Hoechst | 186,900 |
| 4 | Daimler-Benz | 183,400 |
| 5 | Bayer | 181,600 |
| 6 | Thyssen | 152,100 |
| 7 | AEG | 145,200 |
| 8 | Ruhrkohle | 136,800 |
| 9 | Bosch | 121,600 |
| 10 | BASF | 116,500 |

have acquired troubles as well as an empire, problems associated with the unpredictability of the cigarette business and flat beer sales. If Reemtsma revenues had been consolidated with Tchibo, the latter would have surged from its present position near the bottom (No. 96) to No. 32.

Another entrepreneur, a successful one in this case, also divested his business towards the end of 1980. Hans Streif, a manufacturer of prefabricated houses, sold his concern to the Hochtief-Bauleistung, a heavy construction firm. If Streif's sales of DM 800 million had been added to Hochtief's DM 5.1 billion, the latter would have moved ahead of its chief competitor, Holzmann, into the 34th position.

Considerably less surprise was aroused by the long-awaited marriage of the two aerospace firms of Messerschmitt-Boelkow-Blohm in Munich and Vereinigte Flugtechnische Werke in Bremen, a union that was practically forced by the government in Bonn. The fused concern, now known as MBB/VFW, would have had aggregate sales in 1980 of DM 4.3 billion, earning it a placement in the No. 42 position.

## Oiling growth

The increase in total sales for the top 100 was held down by the sagging economy in the second half of 1980. At DM 748 billion, revenues were up 10.7 percent on the year, compared with a leap of 14 percent in 1979. Nevertheless, the group outperformed German industry at large, which recorded increases of 8.2 and 10.5 percent respectively in 1980 and 1979.

The oil companies contributed heavily to the expansion of overall sales within the 100 circle, though not to the same degree as in 1979. The oil group accounted for approximately one-fifth of the absolute increase in revenues over 1979 (versus one-fourth a year earlier). To wit, Veba's oil-related earnings, combined with those of other nine oil firms in our list, rose 16 (1979: 35) percent faster than the average of the top 100 as a whole. As a result, the individual members of the oil group advanced by one to three places. The utilities also benefited via the pass-on of higher energy costs to their customers. Ruhrgas saw its revenues leap by 46 percent and advanced eight places to No. 32. Rhineland-Westfalian Electric (RWE), which posted a gain of 17 percent, moved from 13 to 11.

The metals branch also witnessed considerable upward mobility, largely due to the explosion in the price of precious metals. Degussa for one moved up six rungs to No. 28 on a revenues increase of

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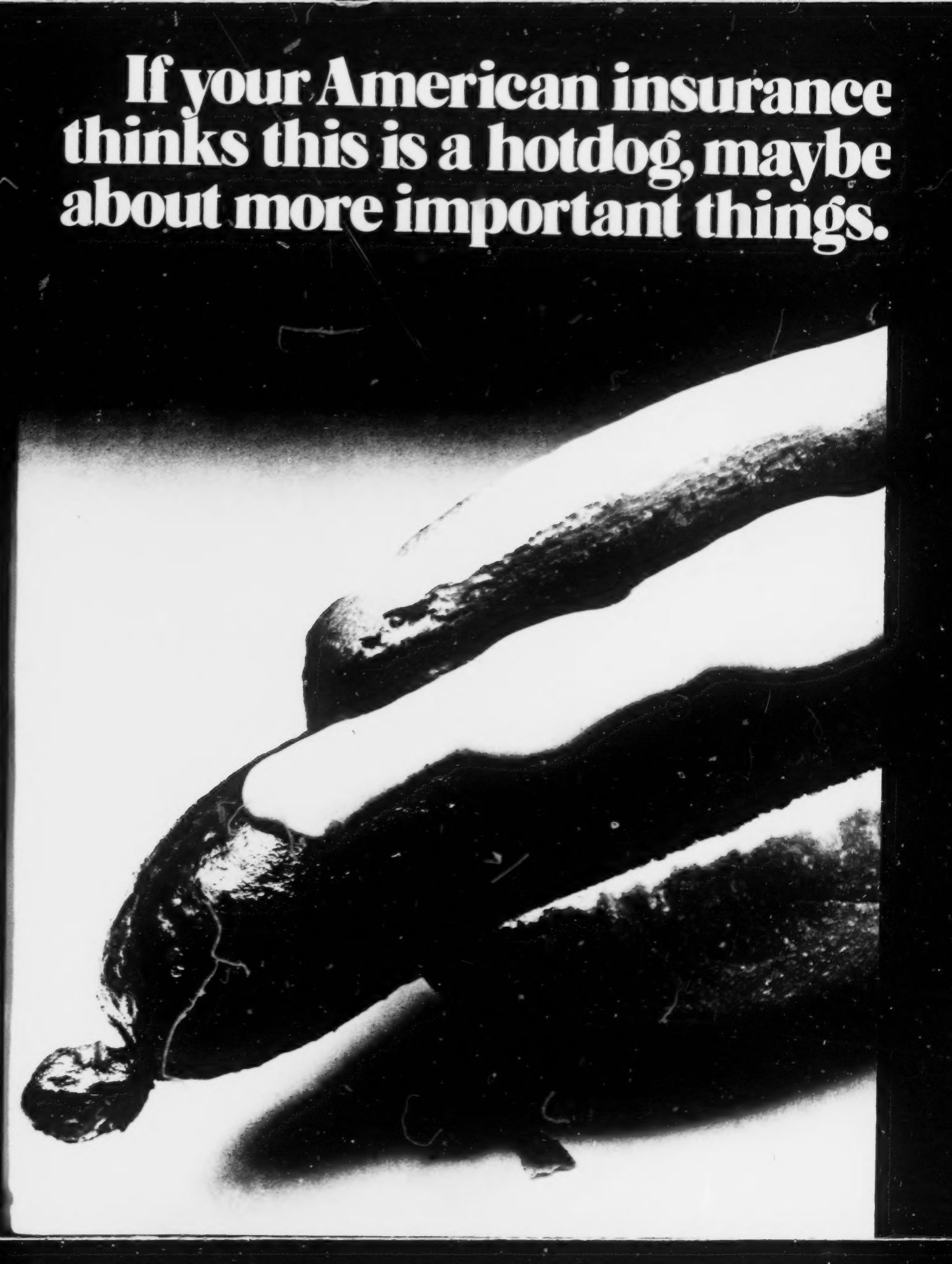

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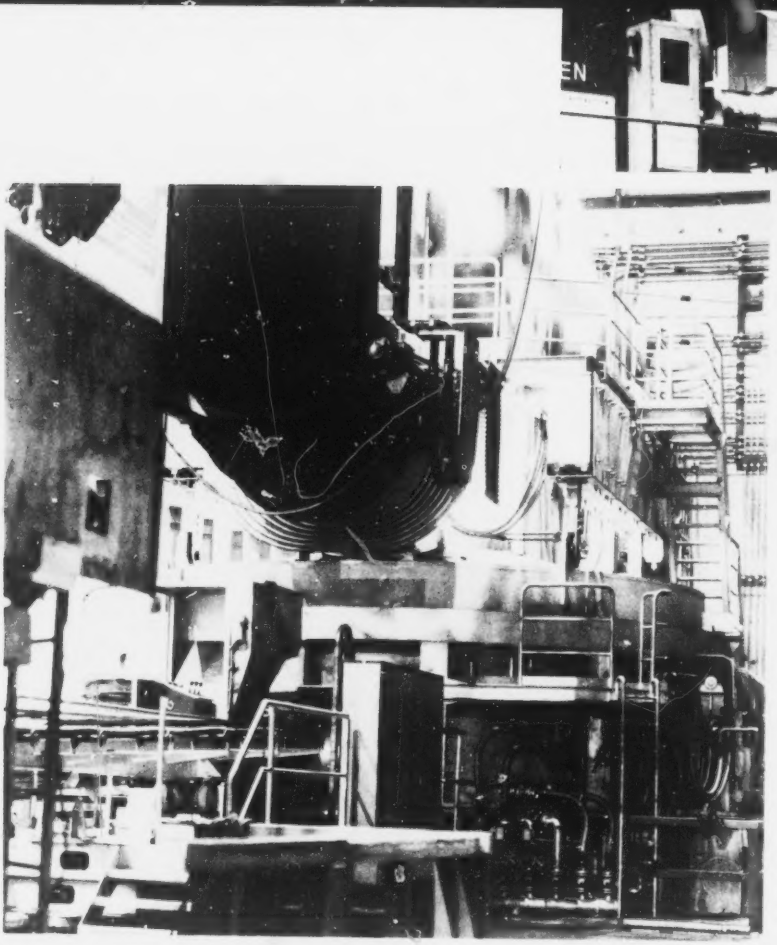
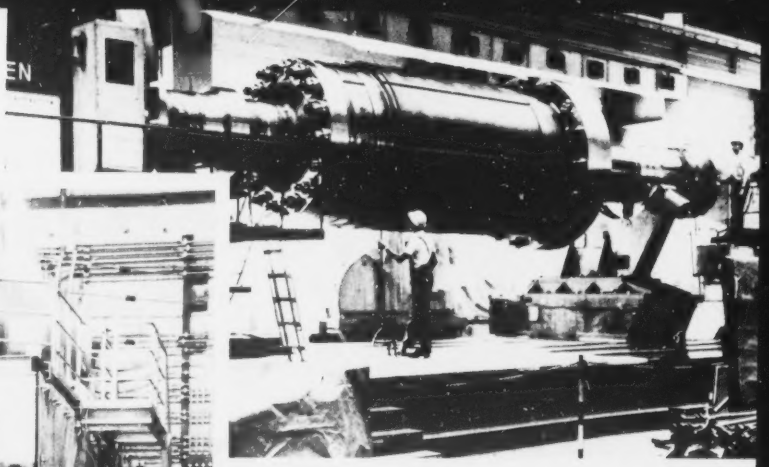




43 percent. Heraeus, with growth of 29 percent, jumped from 79 to 70 on the list.

### Uneven auto performance

Unfortunately for the auto manufacturers, rising fuel prices have dampened consumer demand for their product. Not least of all, German car producers also felt the heat of Japanese competition in the home market for the first time. Both of these factors limited Volkswagen's margin of growth. The 8 percent rise in sales that enabled VW to maintain its No. 2 position in the industrial hierarchy was largely attributable to growth abroad and the consolidation of the results of its overseas subsidiaries. Without the increments from its foreign operations, sales would have amounted to only some DM 32 billion, which would have endangered the security of its position ahead of third-ranked Siemens.

Opel and Ford, on the other hand, have almost no exposure outside of Germany and suffered serious losses in the depressed German car market. Opel's sales fell by DM 1.7 billion, pushing it from 19 back to 23, and Ford was off DM 2.1 billion which pulled it down from 20 to 27. Daimler-Benz was the only German auto company to increase sales in the domestic market last year and raised revenues abroad by a handsome 20 percent. As a result, it leapfrogged ahead of chemical giant BASF to fourth place.

### Sales versus profits

Clearly, an industrial hit parade ranked according to sales reveals but one dimension in the story of corporate quality. Earnings tell more — though again, not everything — about a corporation. Measured by the yardstick of profitability, Veba loses its commanding status at the pinnacle of German industry. The top three prizes go to Daimler-Benz, Siemens and VW.

In a broader sense, the measurement of gross profit (sales less cost of sales) is even more interesting. Essentially this category takes account of wages and salaries, taxes, interest on debt, dividends and retained earnings, which provides a more comprehensive spectrum in which to judge the final performance of a company. In this respect, it should be noted that this calculation excludes the results of foreign activities.

In the final analysis, no system is completely fair and objective. Whatever method is employed to determine the wealth and efficiency of a modern corporation will disproportionately favor a few and unfairly misrepresent others. Still, the exercise finds its validity in presenting an overall picture, however imperfect, of the topography of the German industrial landscape in a given year. ■

**Industrial leaders according to gross profit**

| *Rank: Gross Profit* | *Sales* | *Firm* |
|---|---|---|
| 1 | 4 | Daimler-Benz |
| 2 | 3 | Siemens |
| 3 | 2 | VW |
| 4 | 14 | Ruhrkohle |
| 5 | 8 | Thyssen |
| 6 | 1 | Veba |
| 7 | 7 | Bayer |
| 8 | 11 | RWE |
| 9 | 5 | BASF |
| 10 | 6 | Hoechst |

*Source: Die Zeit*

# West Berlin Attracts American Manufacturers

For many years the biggest psychological boost for West Berliners has been the knowledge that their city stands as a monument to freedom. Furthermore, they have always taken pride in their economic achievements, particularly in the last few years. Today Berlin offers the German and foreign investor special opportunities, notably in the form of massive state aid in setting up manufacturing or service operations in the city.

Investors in capital intensive, high technology industries have in the past 34 months poured over $200 million into West Berlin and are drawing international attention to this historic European industrial city. Attracted to Berlin's profit-oriented incentive package, as well as to the city's healthy economy and productive labor force, these investors join an already sizable roster of multinational American-owned companies such as ITT, IBM, MTS Systems, Philip Morris, General Telephone & Electronics, National Cash Register, Warner Lambert, and Gillette.

According to Wolfe J. Frankl, North American representative for the Berlin Economic Development Corporation, those companies chose Berlin because "the city offers a most unusual climate for high-technology industries. It has a unique and highly developed infrastructure." A major lure, he continues, is Berlin's "well-developed R & D network of 185 institutions and university systems, which together account for over 3,000 technical graduates a year."

Berlin also has the most stable economy in Europe, with over 3,000 industrial enterprises employing more than 185,000 people and producing in excess of $18 billion annually. Of the city's two million population, 835,000 are employed and 50,000 or more work in electronics-related industries. The unemployment rate is only 4.3 percent.

## The financial incentive

In addition, Berlin offers carefully designed financial incentives, including tax advantages unavailable anywhere else in the Common Market. A unique incentive is the value-added tax (turnover tax) rebate, which can add up to 10.2 percent of sales to the bottom line.

Other incentives are significant capital grants averaging 25 percent of the investment, and the possibility of up to 100 percent financing of the remaining capital requirements at 5½ percent and 7 percent interest. Also available is a 75 percent tax write-off of the total investment during the first year of operation or at any

*Wolfe J. Frankl*

time during the first five years. Additionally, Berlin has a 30 percent lower personal income tax rate across the board than West Germany's, which goes up to 56 percent, and a 22½ percent lower corporate tax rate on undistributed earnings than the Federal Republic's 56 percent.

### Development firm aids newcomers

The Berlin Economic Development Corporation, established in 1978, is designed both to attract foreign investors and to serve as consultant from the early stages throughout a company's industrial growth in Berlin.

Robert Layton

In establishing this agency, Berlin hired Robert Layton from the chairmanship of Europe's largest paper company, and put him in the new post of Commissioner for Economic Development and president of the Development Corporation. A former vice president of Ford of Europe, Layton is credited with setting up the Development Corporation's comprehensive, three-faceted structure designed to address new businesses, and to work for stabilization, development and expansion of existing industry. According to Layton, the Corporation has already attracted over 90 businesses to Berlin, and 57 existing firms have been stabilized or expanded. As a result, Berlin's already healthy economy has been boosted by a total of $296 million in investments and 6,500 new jobs.

### The American connection

To facilitate contact in the United States, the corporation opened its New York office in May 1980. Now, an American firm considering overseas expansion has access to information about operating in Berlin. Less than a year after a first "briefing" meeting with Wolfe Frankl, either in the New York office or at its home base anywhere in the continental United States, an American company can begin construction in Berlin. First, Frankl targets the "Berlin difference" for the specific interested company. For serious prospects, the Development Corporation will commission a feasibility study without charge to be conducted by one of the Big Eight accounting firms, using the prospective investor's own numbers and including competitive sites. Frankl recommends that companies also pursue their own studies comparing Berlin's incentives with those offered by other European cities. "High technology companies are profiting now in Berlin's technologically superior and politically secure environment," he says. The only cost for this first stage of contact with Berlin is that of any privately commissioned studies. In Berlin, the Development Corporation assists in the negotiation process right up to and even beyond the launching phase.

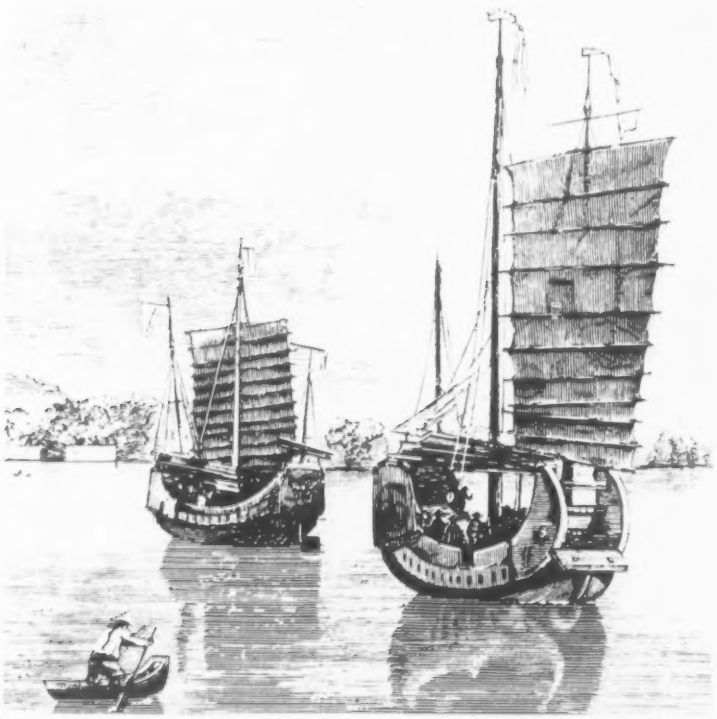
### But how safe is it?

People question the security of an investment in a city surrounded by East Germany. After the Development Corporation's first three years, however, Berlin is no longer thought of simply in nostalgic terms as the historic capital of Germany. More and more companies are discovering that Berlin has become one of Germany's most attractive locations for a plant, a cultural metropolis of international importance, one of Germany's leading university cities, and an outstanding center for R&D.

Berlin's "renaissance" actually started prior to the establishment of the Development Corporation in 1978. MTS Systems GmbH is an example of an electronics company that was drawn to Berlin because of its high technology resources and financial incentives. According to Gerald Bestler, vice president for international operations at the parent company in Minneapolis, MTS expanded into Germany because its toughest competition worldwide was in Europe. "We felt we needed presence — a German-based operation — in Europe. We carefully selected West Berlin because it had a favorable climate for both the employee and our business; it made good financial sense."

MTS Systems GmbH is a two-pronged operation, manufacturing and selling worldwide a line of materials testing equipment, electronic instruments and hydraulic devices. Werner Ongyert, who replaced Bestler in 1977 as MTS general

# The development of international trade owes much to the foresight of merchant bankers.



The earliest method of international trade was by barter. The introduction of money and the eventual acceptance of foreign currencies accelerated the flow of goods and services. Here the skills and flexibility of merchant bankers played an invaluable role.

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manager of European operations recently stated that with sales growth of 20% annually, the plant is expected to double both in staff and output within five years. Ongyert adds, "Since 1978, we have built an excellent working relationship with the BEDC. We feel very confident about our current negotiations to obtain an additional 30,000 square feet."

Despite the fact that, according to Bestler, "Berlin is a modern city with modern facilities," there is still a problem recruiting workers who might harbor preconceived negative notions about life there. Comparing Berlin to Minneapolis, he notes, "It is hard to attract people to Minneapolis, but once they come they discover there's a lot going on. The same is true of Berlin, and there is a significantly low turnover. The style and quality of life there are excellent, both in terms of culture and recreation."

### Minimum of red tape

Furthermore, Berlin maintains a "laissez-faire" philosophy. American-owned companies like MTS Systems find that there is a "minimum of red tape and bureaucracy," says Bestler. "The help is there, but it doesn't seem to overwhelm or complicate the manufacturing process, our reason for being there in the first place."

Bestler considers international politics an overrated problem. "We don't fear the East. We feel sure there is great stability in the political system. At no point has our operation in Berlin been delayed because of unrest or industrial strike. This is significant evidence of our stability." "Berlin is a European hub like London and Paris," he adds. "Most people think of the city as an isolated island. This really isn't true."

There is easy access to all of Europe. The new airport, Berlin-Tegel, handles the city's air traffic and is only 15 minutes from downtown Berlin. In 1980, four million passengers passed through this terminal. International travel connects through Frankfurt, Hamburg, London, Paris and Zurich, with hourly flights to and from the major German cities. The transportation of goods between West Berlin and the Federal Republic of Germany is conducted in accordance with a 1971 Four Power Agreement. There is a simple process now for clearing shipments passing through the control points; time-consuming cargo inspections are no longer required. Goods are shipped in bonded trucks, and only the seals are checked. And an autobahn between Berlin and Hamburg is scheduled for completion in 1982. There is a railroad network with 29 freight stations tied into the European rail system. Further, Berlin is part of the European system of inland waterways. Berlin, as the largest industrial city between Paris and Moscow, offers unique accessibility to both the East and the West.

Many high technology firms wishing to expand in Europe are considering an autonomous operation in Berlin. The skilled technicians are there, raw materials are produced there and nearby, and the tax credits, capital grants and low-interest loans make for rapid payout and an affordable move. Commonly cited problems (recruiting skilled labor, the high cost of housing and skepticism about Berlin's security) seem not to have deterred a number of successful manufacturers already in Berlin.

Obviously the competition among foreign cities to attract U.S. investment is stiff. Recognizing that, Berlin has to make sure it offers an inviting package. A beautiful modern and industrialized city, Berlin is a major contender for U.S. business growth.

The most recent American arrival in Berlin is Ford Motor Company, whose $75 million plastics components plant, employing over 700 people, is just being completed. From it, Ford will supply all of its European assembly plants. As stated by Robert A. Lutz, chairman of Ford of Europe, in a recent testimonial, "Economic considerations and comparisons with other areas were decisive in our choice of Berlin as a site for our new factory. Economic factors combined with our own wish to opt for Berlin."

In the U.S., Henry Ford II, in support of the campaign to attract other American companies to Berlin, proudly adopted the famous statement: "Ich bin ein Berliner." His grandfather could have made the same claim, since he chose Berlin in 1925 as the place to set up his first truck and Model T assembly plant in Germany.

Further information and assistance are available from Wolfe J. Frankl, Suite 7800, One World Trade Center, New York, N.Y. 10048. Tel. (212) 432-8070 ■

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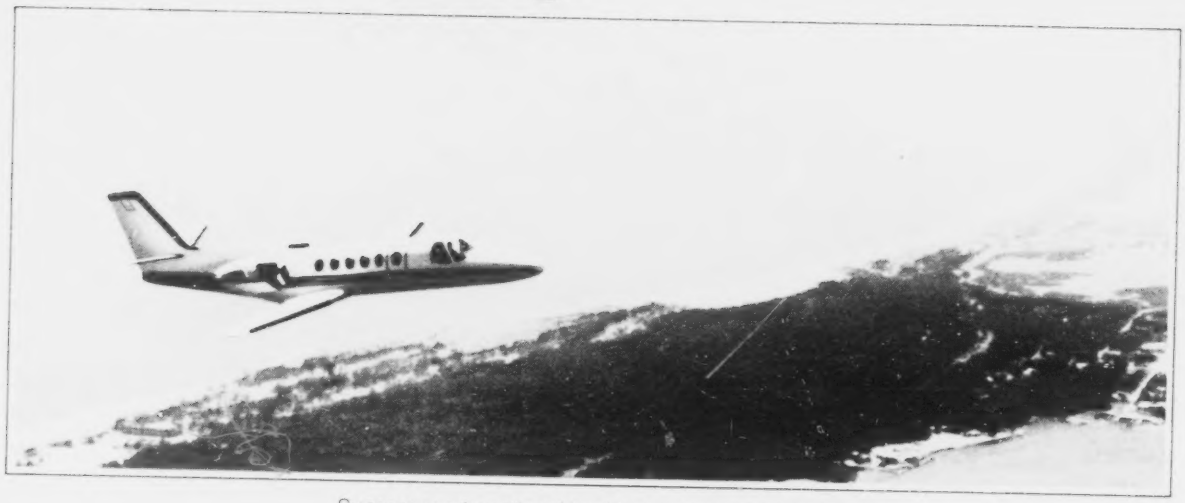

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# Entering the U.S. Through Mergers, Acquisitions, and Joint Ventures

**Anthony J. Paddock**

In the past fifteen years an increasing number of large German companies have established a presence in the United States marketplace by acquiring U.S. companies or by entering into various sorts of joint ventures. By and large these companies have been large sophisticated companies with a considerable history of dealing across international borders. Some examples of German companies that fall into this category are Hoechst, Siemens, Maschinentabrik Augsburg-Nuernberg, and Tengelmann.

In the last several years there has been increasing interest expressed by medium-sized German companies that are interested in entering the United States market by means of merger and acquisition. One example is the acquisition by IBH Holdings AG of G.M.'s Terex subsidiary.

It is clear that as more German companies are choosing to explore the possibility of entering the United States marketplace to be successful, the management of the medium sized companies must be very clear in their objectives and the means to reach them.

There are many factors that prompt companies to enter the U.S. market by direct investment. A major factor that has stimulated investment directly in the United States by foreign companies has been the relatively stable political environment.

A second major reason for the influx of direct investment is that relative to other currencies, and particularly to the Deutschmark, the United States dollar has been soft, a process that was only halted in mid-1980.

A third important reason for considering entry into the United States is the enormous size of the American economy. The American consumer has a substantially greater capacity to pay for goods and services than the developing and emerging countries of the world. Furthermore, in some respects the United States market is less saturated than those of Western Europe. However it is a highly competitive and knowledgeable market so that a newcomer must be prepared to offer quality goods and services at competitive prices.

Finally, many countries are interested in entering the United States market by acquisition in order to acquire know-how and technology. Although the gap between the United States and Western Europe from a technological viewpoint has narrowed in recent years, there are still areas of economic activity where American technology and know-how remain unsurpassed. An entrant into the U.S. marketplace not only has the ability to pick up advanced technology but, by making the right sort of acquisition, can establish a "listening post" to follow new technological and marketing developments in this major market.

## Clearing the hurdles

Although opportunities are available to the German company interested in entering the U.S. market, there are very definitely certain hurdles that must be cleared before the company is in a position to consummate an acquisition or joint venture agreement. The United States has a different culture, which is clearly reflected in its way of conducting business. These differences are reflected not only in financial terms but also in both personal and legal relationships.

One difference that will immediately strike a German businessman is the much greater and rapidly increasing demand from governmental agencies for disclosure of many aspects of business operations. Both the securities laws, monitored by the federal Securities and Exchange Commission, and the tax rules, administered by the federal Internal Revenue Service, insist on significant amounts of disclosure from companies operating in the United States under their jurisdiction. Because the rules of both government bodies are quite complex, a non-U.S. company needs detailed advice from competent advisors. Although American lawyers are a necessity in this area, a financial counseling firm can be of great assistance in maintaining a businessman's view of the complexities presented by the U.S. tax and securities laws.

Governmental regulation in other areas on the Federal, State and local levels also is growing. This is particularly true in areas such as industrial pollution, employee safety, and product liability. The burden of paperwork and capital investment required for compliance can be quite stiff.

It is also important to keep in mind an awareness of the cultural differences in doing business in the United States as

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*Mr. Paddock is vice president of Standard Research Consultants, Inc., a fifty-year-old financial consulting house headquartered in New York City.*

compared to Germany. These cultural differences, a perhaps more informal and flexible relationship between management levels in the United States, for example, impact strongly on the negotiation process where a potential German buyer is talking face to face with potential American sellers. American advisors to the foreign purchaser can help make sure that communications between the seller and buyer are not misunderstood or exaggerated.

The cultural differences also extend to the necessity to keep in place if at all possible a strong and deep American management team. A good group of American managers will do more than anything else to help bridge the differences in doing business between a German-based owner and its American subsidiary. It is also important that the purchaser communicate clearly that the normal German management style is to take a longer view of a company's performance and not to focus, with nearly the emphasis that is typical in the United States, on quarter-to-quarter earnings results. Of course, the better the American management, the easier it is to communicate this different philosophy.

Finally, the size of the American economy relative to the Germany economy may startle the German businessman who contacts potential U.S. acquisitions for the first time. The sheer geographic size of the country is one significant difference, particularly where a potential acquisition produces a product that is impacted greatly by transportation costs. Because of this size, the United States can in many respects be regarded as a number of contiguous but separate marketplaces from the standpoint of a European company entering the American marketplace. Our firm, Standard Research Consultants, being a national organization when working with foreign clients makes a point of communicating regional differences in the pursuit of a potential acquisition as they impact (a) the type of company to be acquired, (b) the market for the product to be produced, and (c) the associated transportation costs.

Related to the size and diversity of the American economy is the fact that many American companies that are considered to be medium-sized in the United States are, in some cases, quite large by German standards. The sheer size and dollar cost in acquiring such a company may prove to be a major hurdle to the smaller German company when it considers the alternatives available in the American marketplace.

## Major constraints

The differences between Germany and the United States in business environment which have been outlined above can be bridged by careful planning and by understanding exactly what the differences mean in the managing of a particular business. However, there are constraints on German buyers that must also be considered, constraints that have little to do with the business environment but rather are a reflection of crossing borders in a different currency. One limitation is the fluctuating relationship between the Deutschmark and the U.S. dollar.

The second is a number of U.S. laws that prohibit acquisition of controlling interests in such businesses as certain areas of the defense industry. However, as the American Government is making strenuous efforts to bring the arms procurement program into closer alignment with the other NATO members, there are still large sections of the defense industry where non-U.S. companies are permitted and are indeed encouraged to bid on contracts.

Corporations that are incorporated in member countries of NATO are permitted because of the overall policies outlined in the NATO treaties to bid on a wide range of defense products in the U.S. There is a limited list of excluded items under the United States Trade Agreement Act of 1979 that are not eligible for procurement bids by non-U.S. corporations but expert advice is advised to determine exactly what items are currently excluded.

Potential German acquirers should also be aware of the structure of anti-trust laws in the United States which may prohibit cross-border restraint of trade by means of acquisitions of competing companies. Competent legal advice from U.S. counsel can often resolve or mitigate these problems.

In a sense, however, the opportunities and problems outlined above put the cart before the horse. Typically the process is to leave these issues aside while the potential acquirer searches for his perfect acquisition in the U.S. marketplace. When such a potential acquisition is identified and negotiations have begun, these other issues come into focus.

First of all, although it seems an elementary point, a crucial aspect of the decision-making process of whether to make an acquisition in the United States is a very clear definition of what sort of company is being searched for and what share of the financial resources of the acquiring company can be put aside for this acquisition. Until this question is sharply focused, it is very difficult, except by luck, to be sure that the range of companies that represent possible acquisitions in the United States have really been identified. The size of the American economy and the number of potential companies is so large that an enormous amount of time and effort can be spent if the acquiring company does not carefully define exactly what it wants.

## The information search

Searching for and identifying attractive industrial investments is an art rather than a science. The first step is to explore the industry niche that a potential acquirer has focused on. Because the Federal laws of the United States mandate abundant disclosure of the operations of publicly owned companies, the amount of available information (especially SEC form 10-K and 10-Q) for these companies is very considerable. A more difficult problem is to identify and analyze privately held companies, which do not report to the Securities and Exchange Commis-

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|---|---|
| 1971 | 2.095 |
| 1972 | 2.243 |
| 1973 | 2.605 |
| 1974 | 3.479 |
| 1975 | 4.228 |
| 1976 | 5.366 |
| 1977 | 6.705 |
| 1978 | 8.591 |
| 1979 | 12.283 |
| 1980 | 15.700 |

Source: Federal Ministry of Economics

sion.

Because of the very large number of publications and voluminous information available through private and government sources, a company exploring the U.S. market for acquisitions or joint ventures the first time should, if possible, work closely with experts that have long experience in searching out the best and most meaningful sources. Some publications need explanation to be properly employed in industry search. Others are of little or no use and can be very misleading to the casual user.

There are numerous periodicals available. For example, Thomas Register is a listing, by product, of the major manufacturers in the United States. This list includes both publicly held and privately owned manufacturers. However, Thomas gives no financial information about the manufacturers and does not indicate whether a particular company has a public market for its stock. Furthermore, the listing only indicates the major products produced by a company. For this reason, companies that may be significant producers in a relatively small market may not be listed by these products in Thomas Register.

Another major source of information is the SIC Code (Standard industrial Code of the U.S. Commerce Department) which groups companies by industry and subgroups within an industry. However, companies which are in several different business lines often are listed in the SIC Code only under one product. Therefore, the SIC Code cannot be considered a complete listing of companies in an industry. Furthermore, unfortunately, the SIC Code identifies only companies that report to the Securities and Exchange Commission, i.e. publicly held companies.

There are two large financial reporting companies that specialize in providing information on companies in the United States. Standard & Poor's Corporate Records and the directory of companies that file reports with the Securities and Exchange Commission are basic sources of information about public companies. A major competitor, Moody's Financial Services, has a very similar sort of listing in their Corporation Manuals.

Dun & Bradstreet Sheets are another basic source of information. This company, by sending people to interview the senior management of companies both large and small, public and private, compiles information on the credit worthiness of corporations. These sheets, which Dun & Bradstreet attempts to restrict to a limited circulation on a confidential basis, enables suppliers and other lenders to companies to keep track of their customers' credit position. The information found in the Dun & Bradstreet Reports can vary enormously in accuracy and depth of detail. Some of the very largest privately held companies refuse to give any but the most sketchy information to Dun & Bradstreet. If the interviewer is not skillful, the information can be inaccurate or deliberately misleading as provided by the company's management. Nonetheless, the D & B sheets do give a range of information that is not available elsewhere. Dun & Bradstreet also publishes a directory ("The Million Dollar Directory") which sets forth companies over a million dollars in size in the United States on a geographic and product line basis. Using these sources selectively and with experienced judgment, a fairly comprehensive list of companies and pertinent financial information in a very particular industry niche can be compiled.

The United States also abounds in publications, some with limited circulation, which are published for various industries. Many of these trade magazines will give valuable information about companies within the industry listed by size of sales or by product line. Trade publications, in conjunction with the more general published information, can be scrutinized to give one a very good idea of the significant companies within an industry.

### Professional advice

Once the printed sources have been explored for all possible data, additional information from personal contacts must be secured in order to confirm impressions gained through printed sources. A potential acquisition should be ex-


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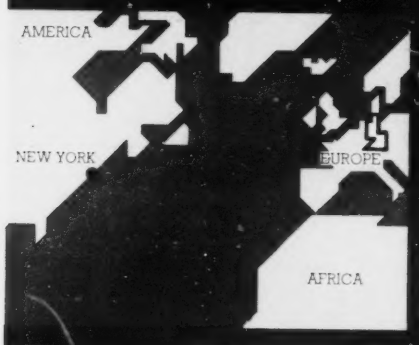


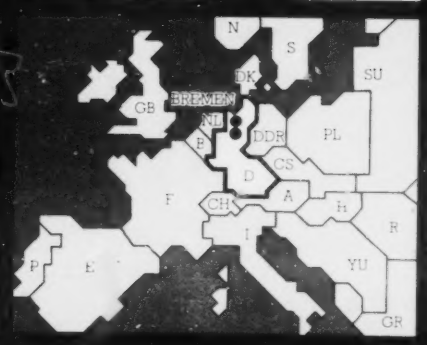

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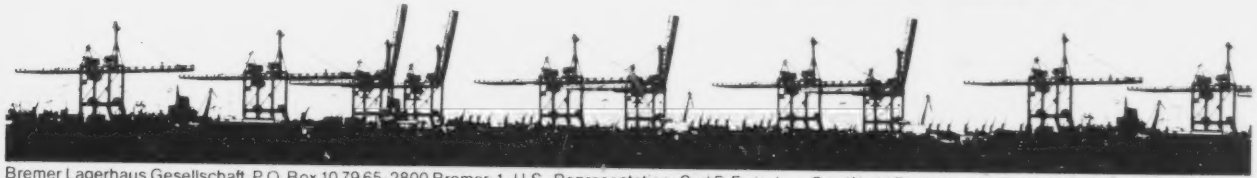

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plored through discussions with professional advisors and contacts within its particular industry. Often very enlightening information that will not appear in print may be gleened from someone who regularly works within the industry or has professional contacts within an industry segment.

Professional advisors fall into four categories.

The major law firms in the United States — those which provide outside legal counsel for corporations — often are a source of information about a particular company and a means to an initial introduction. However, lawyers tend to be very protective of their relationships with client companies, particularly where a company has one dominant stockholder, and are even more cautious about revealing any information that is not generally available to the public about a client. If, however, the law firm has prior and personal knowledge of the intermediaries who are in contact with it regarding their client corporation, the attorneys will feel an obligation to make sure that their client does not miss a potential business opportunity which may be presented.

In the United States, certified public accountants play an important role in helping corporations, both public and private, deal with their lenders and stockholders. Like attorneys, the CPA firms are very protective of their relationships with a client and will not divulge financial information without the client's permission. The accounting profession in the United States is dominated by eight national accounting firms. These firms provide financial services to their clients and also have expertise in the account aspects of mergers and acquisitions. For that reason, these firms tend to be understanding of a serious and professional approach by a potential merger partner. Of course they will be even more helpful if they feel that there is a possibility of adding the prospective buyer to their client list.

There are over 8,000 commercial banks in the United States. All these banks to a greater or lesser degree lend money to corporations in their geographic banking area. Bankers tend to be very conservative, cautious and closed-mouthed about corporations that have a relationship with them. However, particularly where the major big city banks are involved, if the prospective buyer is known within the bank, the bank officers can in many cases be helpful in ascertaining whether their customer would indeed be interested in talking to a prospective

buyer. It should be pointed out, however, that the relationship of a bank to a corporation tends not to be as close as the corporation's relationship with its lawyers and accountants. Furthermore, the contact with the corporation within the bank may be at a low level. Nonetheless, the banks can often provide information and even introductions that can be extremely valuable in an acquisition search.

The fourth category are securities firms, including investment bankers. The medium- and larger-sized securities firms maintain research departments that follow the publicly traded companies in a wide variety of industries. Their in-house knowledge and expertise regarding specific industries can be extremely broad and helpful to a potential entrant into the marketplace. By definition, however, the securities firms do not track privately held companies, nor are they interested in the smaller companies with a limited market for their stock. The very large securities firms also engage in underwriting, stock trading, and other aspects of the investment banking business, including negotiating and structuring of mergers. The largest mergers between publicly held companies usually involve the services of investment bankers on one or both sides. However, the interest of the major investment bankers in medium-sized deals where the fees are relatively smaller is limited. For this reason medium-sized companies who are interested in an acquisition in the U.S. marketplace probably will decide not to engage a major securities firm for help.

By using one or more of these groups of professional contacts a potential buyer can obtain crucial information regarding the competence of the management of a potential seller and the willingness of the owners of the company to enter negotiations.

It is at this stage in the process that a newcomer to the U.S. market may find it advisable to receive assistance and advice from an American firm experienced in industry searches. The ability to identify whether a company's management might be interested as a potential acquisition or joint venture partner and the even more sensitive issue of how to make the initial contact requires skillful and experienced planning in order to be successful. It is *not* true that most American companies of medium size are available for sale. Many managements, if approached ineptly or under the wrong conditions, would be offended and disposed to dismiss any potential acquirer.

Although there is plentiful information for companies that are publicly held in a report to the Securities and Exchange Commission, a more difficult problem is searching out and analyzing a privately held company. For a company management exploring the U.S. merger and acquisition market for the first time, it is difficult without assistance from experienced U.S. advisors to make sure that private companies are not inadvertently overlooked in the industry search, and that all available sources of printed information and personal contacts that might provide additional information have been explored. In the case of privately held companies, the search must be thorough to cover all potential sources of information. Experienced assistance in the industry search process is very useful in this process and can save time and money for acquiring company's management.

A most crucial phase of a successful acquisition is the first meeting with the potential sellers. It is essential that all possible information about the target company be analyzed and full understood by the buyer's management before the meeting. Careful consideration must be given and judgment exercised before the meeting. Careful consideration must be given and judgment exercised to use the most appropriate person to contact the company — whether through professional advisors, industry contacts, or in some cases a telephone call directly from a senior member of the buyer's management. In any case, a discreet approach is required. The psychological pressure and the lack of knowledge of the buyer's intentions and business plans make a potential seller highly suspicious and uncomfortable no matter what his surface demeanor may indicate.

## Alternatives to acquisition

Another aspect of the pre-meeting homework is that all the possible alternatives to an outright acquisition should have been carefully considered. The alternatives might involve a swap of technical know-how, a joint venture, or granting an exclusive distribution right in the United States. The buyer should consider exactly what resources are available for the purchase and particularly the dollar limit it can afford to make the acquisition. (Of course it may not be possible to be precise until greater financial information is available through the seller's management.)

Certain subjects that should be clearly and candidly discussed during the first meeting is why the buyer is interested in exploring this combination from a business standpoint and the shape of the offer — 100% purchase of the stock, a majority interest, a minority interest, or some other alternatives.

Two subjects, however, are extremely sensitive. The first is the role of the seller's existing management after the acquisition. Depending on the circumstances and business judgment of the potential buyer, the best approach is to be as positive as possible about this area at the first meeting, if indeed it appears that the existing management is competent and should be retained. If this represents any potential problems, the topic probably should be deferred until the parties get to know each other after the first meeting.

The other sensitive subject is what constitutes a fair price for the selling company. As stated before, the buyer should have in mind a general idea of what he is willing to pay so that if it appears that the price ideas are completely divergent, time is not wasted where there is no possibility of an agreement. On the other hand, unless the seller is a public company that reports in detail to the Securities and Exchange Commission, it is unlikely that the buyer will have sufficient financial information to make a detailed price offer at the first meeting. If that is the case, it usually is a better strategy to ask the seller for his general ideas as to the value of his company without the buyer committing himself one way or another until he can with the help of his advisors make a firm proposal.

Most important of all in the initial introduction is the beginning of a meeting of minds between the two sides. The interpersonal relationship that should develop into the willingness to openly discuss issues in the negotiations will only happen if the first meeting is carefully planned.

An experienced advisor can be crucial in the course of negotiations both to provide experienced advice and to provide a disinterested view of the negotiating process and a communication channel between the buyer and seller. The advisor can often be helpful as to the approach to be employed in the initial meeting. Another aspect of advice is the expertise to frame a fair yet profitable offer for the buyer's side. The consultant's role in this aspect becomes especially crucial where there is uncertainty in the seller's mind as to the real value of the company. Such factors as the trend of sales and earnings, the book value and balance sheet position of the company, and financial ratios as related to companies that have a publicly traded stock which are comparable are analyzed so that a range of value can be arrived at. ■

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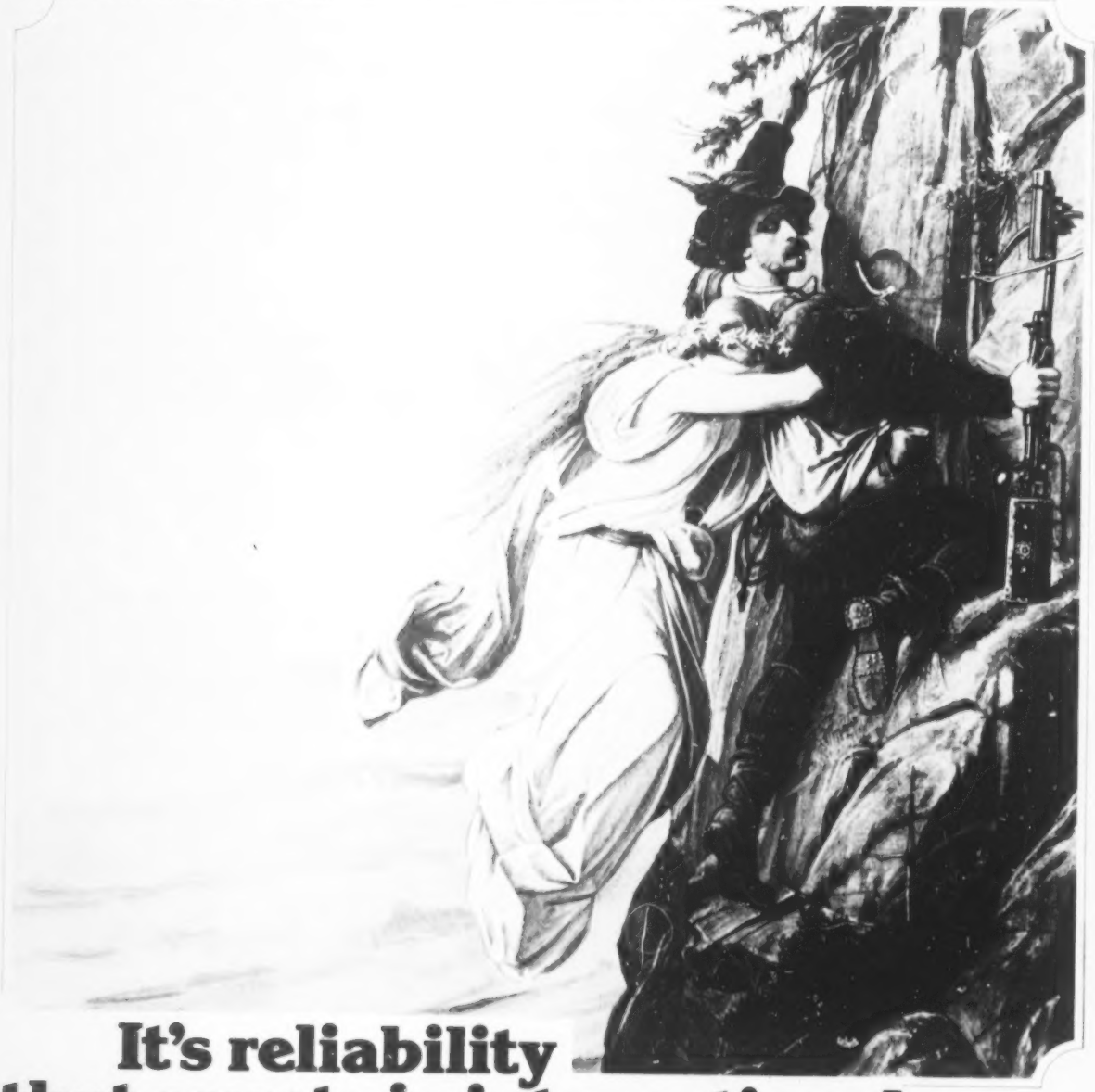

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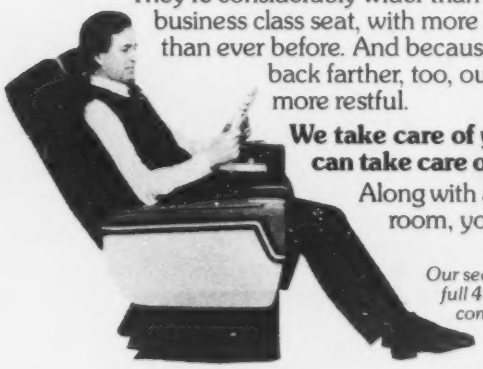

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1 ½ lbs. (680 g) ham shank,
1 pint (570 ccm) water,
salt, sugar.

Place ham shank in a deep saucepan and add water. Bring to boil, then let simmer for 1 ½ hours. Place Sauerkraut under the ham shank. (Don't wash the Sauerkraut as it loses its nutritive value.) Bring to boil again and allow to simmer over low heat for one hour. Grate potato and use to thicken liquid, return to boil, season with salt and sugar if desired. Cooking time: 2 ½ hours.

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GATN

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# Chamber Commentary

## Sober New Year retrospective

The year just ending has built a weak second rung in the decade. Apart from professional masochists, it has brought satisfaction to very few, but pain to many and palpable anxiety to most.

The current economic downturns in Germany and the United States were widely forecast. But forewarned is not always to be forearmed. Unemployment is but one example. In the Federal Republic joblessness has roughly doubled in the last 12 months and in the United States unemployment — at more than 9 million people — is higher than the peak for any other slump except the severe 1973-75 downturn.

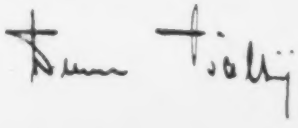
Little reassurance can be gained from conventional analysis. In contrast to past slumps, the current ones seem to be as much structural as cyclical. Among others, the U.S. has serious problems with its automobile industry; Germany in turn is still wrestling with the crisis in steel. With several key industries in both countries having difficulty manufacturing the right product at the right price, the expected upturns in 1982 are unlikely to have as broad an impact as in the past. Thus, the recoveries in the United States and Germany will probably continue to reflect the painfully slow growth that has characterized the economies of the industrial countries since the mid-1970's.

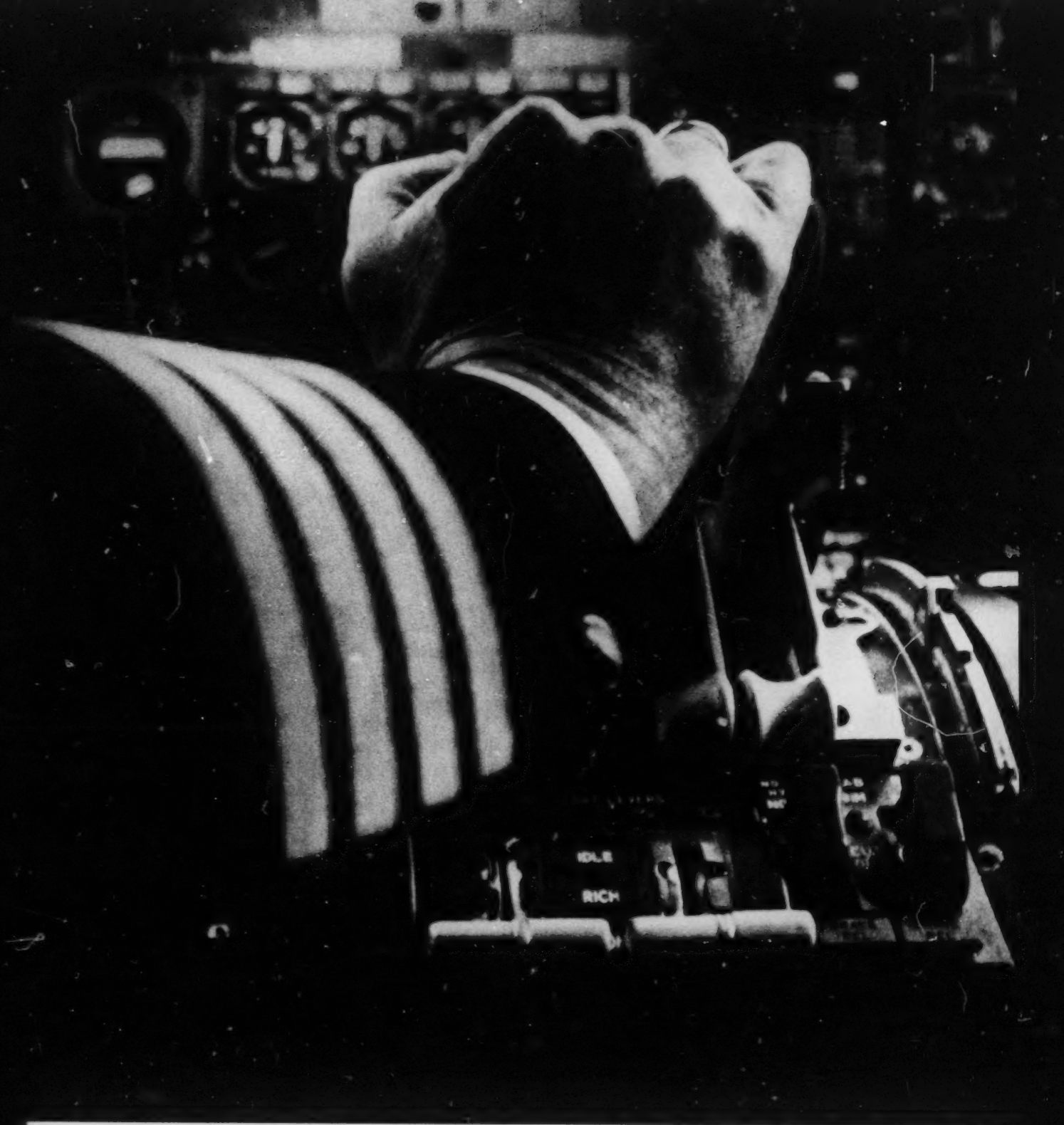
This past year also bequeaths a chilly climate of resurgent protectionism. While several of the issues seem like replays from previous years, such an assumption would seriously underestimate the circumstances and passions involved in the latest round. Agriculture is a case in point. Washington is pressing the Europeans to cut back their export subsidies to farmers, which the U.S. contends give them an unfair advantage in Third World markets. But with industrial unemployment growing to dangerous levels and bankruptcies exploding, it is difficult to see Brussels assuming the additional burden of a confrontation with its powerful agricultural lobby.

The tone of exchange in steel is also becoming increasingly strident as both the Common Market countries and Washington face strong protectionist pressures. In addition, the U.S. wants Europe to open its markets further to textile imports from developing countries through an easing of restrictions in the 50-nation Multifiber Agreement, which regulates world textile trade. The Europeans, whose own textile industry is in a serious slump, are balking.

In the past, it has always been possible to come to grips with these and similar controversies. And there is no fundamental reason why this should not be possible now. But the customary strains and stresses which have characterized the interplay of economic relations have been heightened by the deep, pervasive, and highly structural economic slump around the world.

So, to my wishes to our members for a happy and successful New Year, I add the hope that the forces of reason and patience will prevail in 1982, and that the paths of enlightened self-interest and long-term perspective will again join.



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# Trade Fairs

## ANUGA 1981 a great success

There is no recession in the food sector. Nevertheless, the general economic climate is also making those in the food trade more conscious of costs. This was apparent at ANUGA COLOGNE 1981, which came to an end on 15th October after running for six days. For the whole of the duration, the fair saw a lively level of activity on the information, contact and ordering fronts.

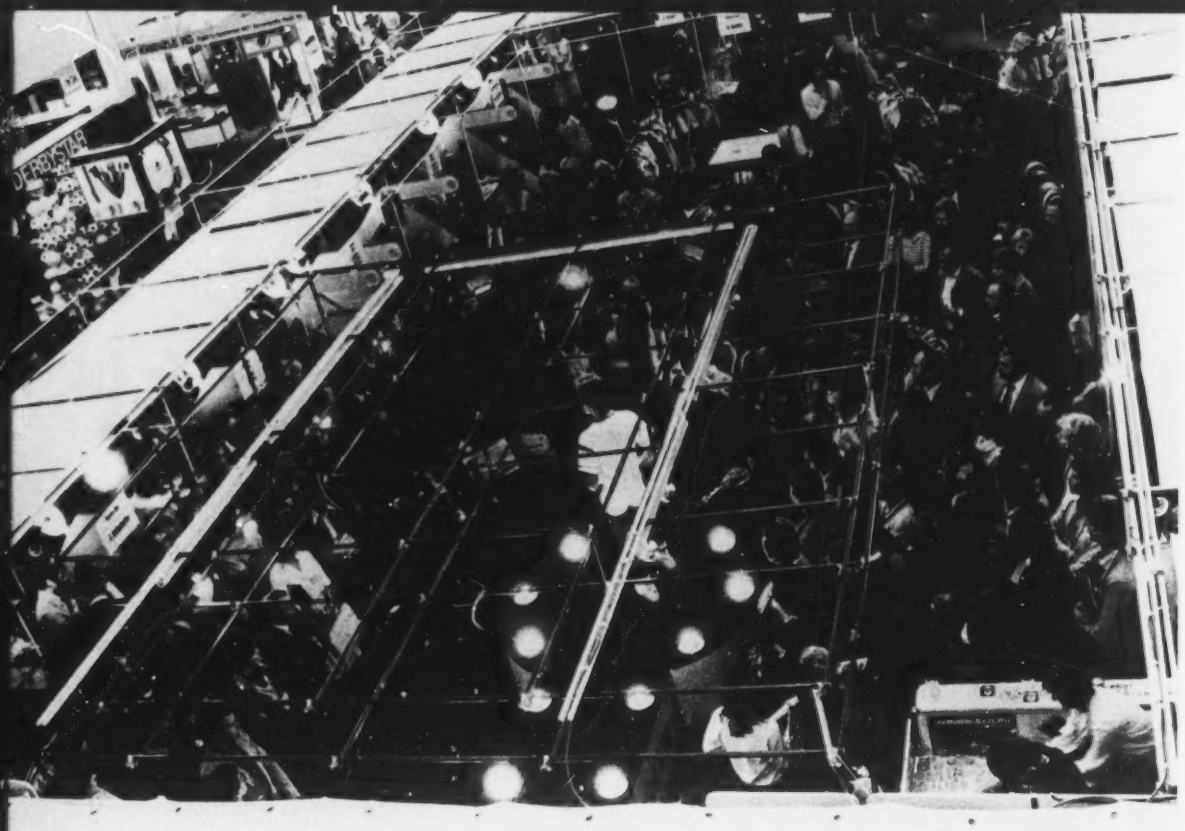
There was unanimous agreement among exhibiting firms and trade visitors that this year's fair marked one of the most successful milestones in the history of ANUGA. The following reasons were given:

- a larger number of visitors, particularly from abroad.
- the high percentage of foreign buyers, which further enhanced the trade fair's multilateral character.
- the good results obtained in the individual product sectors, particularly in the food and semi-luxuries sector. Many exhibitors declared ANUGA to have been a "smash hit".

A total of 144,900 trade visitors from 88 continental and overseas countries came to ANUGA COLOGNE. The number of foreign visitors rose by 25 percent and was therefore significantly higher than at the 1979 fair. The percentage of foreign visitors present stood at 24 percent; overall attendance rose by 5 percent. The attraction exerted by ANUGA on foreign buyers could also be seen by the fact that this year even more trade groups came to Cologne from a total of 33 countries. Overseas visitors were more heavily represented than in previous years.

ANUGA COLOGNE 1981, which was opened by Frans Andriessen, a member of the Commission of the European Community, was the largest event in the entire history of the fair stretching back over 60 years, both in terms of the range of products on offer and the floor area it covered. The fair occupied a gross display area of over 205,000 m² and featured displays by 4,436 firms from 80 countries. These included 3,366 direct exhbitors and 1,070 represented firms. The percentage of foreign exhibitors stood at 63 percent.

Including the Federal Republic of Germany and the GDR, there were 80 countries represented, 69 of them presenting official national displays from Europe and overseas. The international character of ANUGA was underlined by the fact that it was visited by numerous ministers and ambassadors from Germany and abroad.



## photokina Cologne

Over 100 exhibitors from the USA are expected at the forthcoming 17th photokina, to be held from October 6 to 12, 1982. So far — one year before the start of the Fair — 91 registrations have been received from US firms, including a joint display put on by the NAVA, the US National Audiovisual Association. The product range offered by US firms covers all fields of photo, cine, video and AV. Altogether, the World's Fair of Photography in Cologne is expected to attract over 1,000 exhibitors from some 30 countries, with 60 percent coming from abroad. The USA will be fielding the biggest non-German team, followed by Great Britain with 67 registrations so far, Japan with 64, France with 53, Italy with 46 and Switzerland with 28 so far. The Fair will cover a floor space of 128,000 sq m, and some 130,000 trade visitors are expected from all over the world.

Particular growth is noted in the video section, in the international centers for Finishers, Professional Photography and Studio Equipment, Cine and Television Technology, and Audiovision. The organizers — the Association of the Photographic Industry, Frankfurt, and the Cologne Fair Company — are taking account of this trend with extensions to the Fair's supporting program. The 1982 program includes the annual members' meeting with a technical-scientific meeting of the German Society for Photogrammetry, the International Congress "AV Practice '82", workshop events for teachers and instructors. A special conference on the topic "The Integrated Lab" is in stage of preparation.

The photo and film shows in Cologne's Kunsthalle in 1982 will be starting as early as Friday, September 17, and will end on the last day of the photokina, on Tuesday, October 12, 1982. The photo shows will comprise an amateur section with the results of the Young People's Photo Competition and the newspaper readers' competition "Aperture 80/81" and an artistic section with the major exhibition "12 Photographers 1920 to 1980" including among others the Americans Ansel Adams, Richard Avedon, Paul Outerbridge, Eliot Porter, Charles Sheeler, Frederik Sommer, Edward Weston.

The film show program, too, will reflect the most varied fields of the medium film with, inter alia, the results of the Super 8 competition on the subject "Local Event", top films from the International Industrial Film Festival '82 in Amsterdam and contributions by the Institute for the Scientific Film.

### Trade fairs and travel agents

"Everything you wanted to know about trade fairs" could have been the title for the August 31-September 4 Trade Fair Seminar for U.S., and Canadian travel agents in Frankfurt, hosted by the Frankfurt Fair Company and Lufthansa German Airlines.

Taking the position that trade fairs offer previously unexplored opportunities for travel agents who have yet to explore this excellent market, the fair organizers took thirteen travel agents through an ongoing exhibition, the International Autumn Fair, conducted hotel inspections, and held rap sessions with incoming agents and put on a hotel workshop.

Frankfurt Fair Company executives promised close cooperation with travel agents who will pursue leads available from their U.S. Fair Representative, Philippe Hans, at the New York German-American Chamber of Commerce office. Participation will be coordinated in advertising in all media in North American, as well as existing direct mailing programs.

Consider the possibilities, pointed out the host representatives! Ten to twelve trade fairs held annually. The International Spring Fair attracted 16,000 overseas visitors in 1981, and 8,500 for Autumn. Automechanika brings 12,000 from abroad; Heimtextil draws 18,000 and 35,000 for the air conditioning and heating event.

An important factor to consider for travel agents is that a number of exhibitions are held during off-peak vacation periods. As with any trade fair city, rooms are not readily available, but with appropriate contacts such as those offered at the seminar, agents will find excellent support.

Accepting the invitation of the Frankfurt Fair Company and Lufthansa were: Mrs. A. Sommer, Standard Tours, Montreal; Margaret Florsham, Goliger's Tours Ltd., Toronto; J. Gallagher, Hagen's Travel, Vancouver; Ray Vastola, Travel Planners, New York; Jeane Bouk-Knapp, Crystal World Travel, Arlington, VA; Rose Cunningham, Atlanta, GA; Genevieve Gedraitis, City Travel, Northbrook, IL; Mel/Tyler, Hoosier Travel, Indianapolis, IN; Jan Silva, American Express Co., Minneapolis, MN; Freda Greene, Salk International, Newport Beach, CA; Jim Boin, Cardillo Travel Service, Santa Clara, CA; Vincent de George, Atlantic Maritime Travel, Springfield; and Edith McCorkle, Travel Planners, Newport Beach, CA. ■

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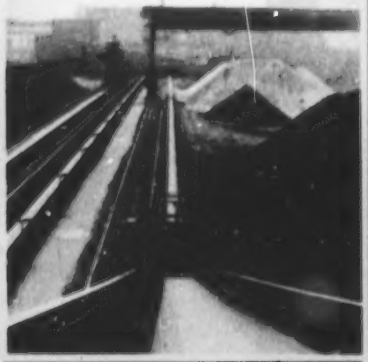

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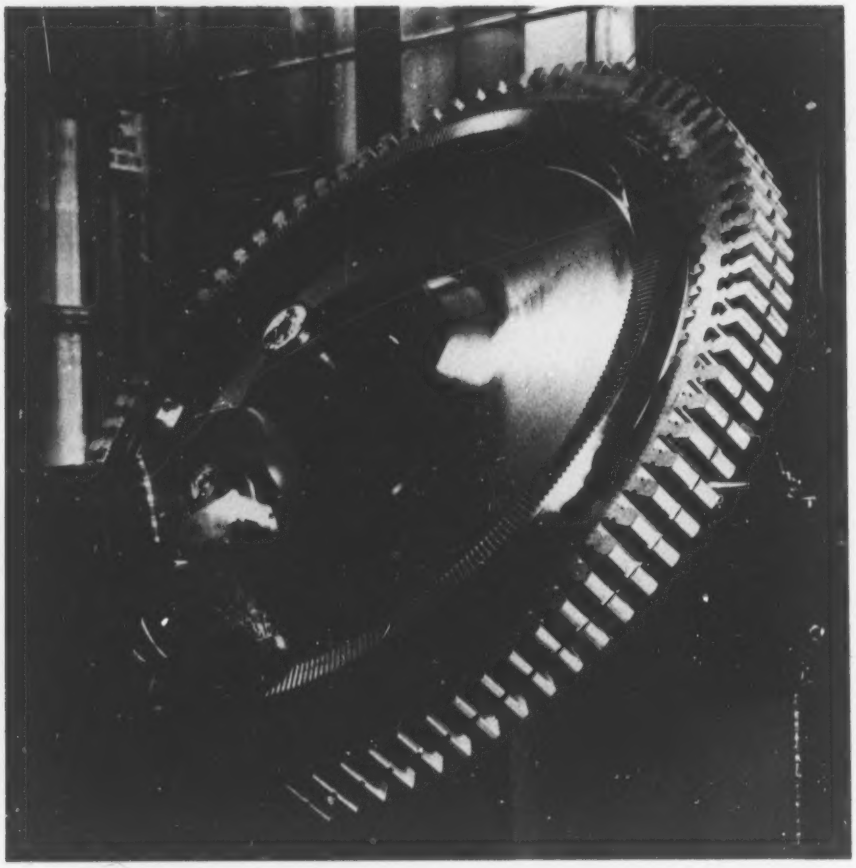
# German-American Economic Review in Figures

| | Federal Republic of Germany | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | | | 1979 | 1980 | 1981 | | |
| | | | June | July | Aug. | | | June | July | Aug. |
| **FOREIGN TRADE** (in mil. $) | | | | | | | | | | |
| Imports | 159,646 | 187,933 | 12,917 | 13,359 | 11,274 | 207,077 | 241,461 | 21,967 | 19,784 | 23,499 |
| Exports | 171,801 | 192,901 | 13,621 | 14,862 | 11,252 | 181,646 | 220,684 | 19,870 | 19,264 | 19,050 |
| Balance on merchandise trade | 12,158 | 4,968 | 704 | 1,503 | –22 | –25,431 | –20,838 | –2,097 | –520 | –4,499 |
| **U.S.-GERMAN TRADE** (in mil. $) | | | | | | | | | | |
| U.S. imports from Germany | 11,337 | 11,821 | 911 | 992 | 714 | 10,955 | 11,681 | 918 | 950 | 988 |
| (+)(–)% from previous year | 12.9 | 4.3 | –4.3 | –8.8 | 7.9 | 10.0 | 6.6 | –7.5 | –9.8 | 5.9 |
| U.S. exports to Germany | 11,081 | 14,161 | 1,026 | 984 | 883 | 8,272 | 10,732 | 792 | 722 | 751 |
| (+)(–)% from previous year | 27.0 | 27.8 | –17.3 | –23.5 | –11.3 | 21.4 | 29.7 | –15.2 | –14.9 | –4.9 |
| Balance on U.S.-German trade | 256 | –2,340 | –115 | 8 | –169 | –2,683 | –949 | –126 | –228 | –237 |
| **INDUSTRIAL PRODUCTION** | | | | | | | | | | |
| (+)(–)% from previous year | 5.4 | –0.4 | –2.0 | –1.3 | 0.5 | 4.4 | –3.5 | 8.1 | 9.6 | 7.8 |
| Iron and steel | 9.0 | –3.3 | –0.8 | 0.1 | –8.0 | 0.0 | –18.9 | 30.6 | 46.4 | 38.9 |
| Machines, exc. elec. | 4.8 | 3.4 | 1.8 | –2.5 | 0.6 | 6.5 | –0.7 | 10.0 | 11.5 | 11.3 |
| Electrical machinery and equipment | 1.1 | 3.2 | –1.5 | –7.7 | 2.1 | 9.8 | –1.3 | 8.1 | 9.6 | 9.1 |
| Chemicals | 6.7 | –4.0 | 1.4 | 4.5 | 5.7 | 6.6 | –2.4 | 14.3 | 15.9 | 11.7 |
| Road motor vehicles | 7.5 | –4.6 | –2.0 | 1.0 | 9.0 | –5.8 | –25.7 | 28.9 | 20.9 | 17.6 |
| Textiles | 3.8 | –0.9 | –8.9 | –1.3 | 0.2 | 4.6 | –5.7 | 3.7 | 4.9 | — |
| Apparel | –0.1 | –5.1 | –8.7 | –4.5 | –5.8 | –2.6 | –4.4 | –4.8 | 0.6 | — |
| **LABOR MARKET** | | | | | | | | | | |
| Population (in mil.) | 61.4 | 61.7 | 61.7 | — | — | — | 227.7 | 229.6 | 229.8 | 230.0 |
| Civilian labor force (in 1000) | 25,573 | 25,795 | — | — | — | 102,908 | 104,719 | 106,176 | 106,464 | 106,602 |
| Unemployed (in 1000) | 876 | 889 | 1,126 | 1,246 | 1,289 | 5,943 | 7,448 | 7,784 | 7,502 | 7,657 |
| Unemployment rate (in %) | 3.8 | 3.8 | 4.8 | 5.3 | 5.5 | 5.8 | 7.1 | 7.3 | 7.0 | 7.2 |
| Gross hourly wages in manufacturing (in DM or $) | 12.55 | 13.41 | — | — | — | 6.69 | 7.27 | 7.99 | 8.02 | 8.08 |
| (+)(–)% from previous year | 5.6 | 6.9 | — | — | — | 8.4 | 10.9 | 10.7 | 9.9 | 9.8 |
| **PRICES** (+)(–)% from previous year | | | | | | | | | | |
| Consumer Price Index | 4.1 | 5.5 | 5.5 | 5.8 | 6.0 | 11.3 | 13.5 | 9.6 | 10.7 | 10.9 |
| Producer prices for ind. products | 4.8 | 7.5 | 7.3 | 8.1 | 8.8 | 12.9 | 16.1 | 11.4 | 10.8 | 10.4 |
| **CURRENCY EXCHANGE RATES** (avg.) | | | | | | | | | | |
| Value of $1.00 in DM | 1.8330 | 1.8158 | 2.3758 | 2.4399 | 2.5010 | | | | | |
| Value of DM 1.00 in $ | | | | | | 0.5456 | 0.5509 | 0.4205 | 0.4098 | 0.3999 |

| | 1979 | 1980 | 1980 — 1981 | | | | 1979 | 1980 | 1980 — 1981 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | IV | I | II | III | | | IV | I | II | III |
| **NATIONAL ACCOUNTS** | | | | | | | | | | | | |
| Gross National Product at current prices (in bil. DM or $) | 1,400 | 1,497 | 1,608 | 1,431 | 1,519 | — | 2,414 | 2,626 | 2,731 | 2,853 | 2,886 | 2,947 |
| (+)(–)% from previous year, real terms | 4.5 | 1.8 | –0.7 | –2.0 | –0.6 | — | 3.2 | –0.2 | –0.3 | 1.0 | 3.2 | 2.5 |
| Balance on current account (in mil. DM or $) | –9,644 | –29,832 | –4,790 | –9,138 | –5,339 | –12,278 | 1,414 | 3,723 | 1,390 | 3,263 | 1,073 | — |
| Monetary reserves (in mil. $) | 60,455 | 53,141 | 53,141 | 56,614 | 54,374 | 53,049 | 18,950 | 26,760 | 26,760 | 30,410 | 29,580 | 29,710 |
| Direct investment, cumulative at period end (in mil. DM or $) | | | | | | | | | | | | |
| Direct investment abroad | 66,002 | 74,162 | 74,162 | — | 78,471 | — | 186,760 | 213,468 | 213,468 | — | — | — |
| — German investment in the U.S. | 12,283 | 15,664 | 15,664 | — | 16,821 | — | | | | | | |
| — U.S. investment in Germany | | | | | | | 13,530 | 15,393 | 15,393 | — | — | — |
| Foreign direct investment | 55,242 | 57,616 | 57,616 | — | 59,469 | — | 54,462 | 65,483 | 65,483 | — | — | — |
| — U.S. investment in Germany | 20,140 | 20,312 | 20,312 | — | 20,582 | — | | | | | | |
| — German investment in the U.S. | | | | | | | 5,665 | 5,290 | 5,290 | — | — | — |

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium fuer Wirtschaft; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System; International Monetary Fund



# The German Economy: Problems and Prospects

The German economy has been drifting for well over a year. Key areas of the economy have been stagnant or even sharply recessive, and such sensitive barometers as inflation and unemployment have risen ominously. Equally disquieting to Bonn and the German public, the economic environment among the nation's leading trading partners has been, if anything, even less favorable.

At this point, 1981 seems to have witnessed the end of illusion. In past recessions, government pump-priming has provided first aid, while countercyclical orders from foreign customers have partially offset lagging demand at home. Neither of these can be expected to revitalize the economy this time around. The coalition in Bonn has vowed to curb any further increase in deficit spending and healthy recoveries abroad are not in the cards.

However, it would be well wide of the mark to paint the picture only in dark hues. Rather, it is the half tones that are causing concern. Following a sharp contraction in the growth of gross national product in 1980 (1.8 vs. 4.4 percent in 1979), the GNP will probably show a real contraction for all of 1981 of about 1.0 percent. On the other hand, this year has seen a strong rebound in exports — above all to the Middle East — which affords some hope that the serious current account deficit can be narrowed. Brooding in the background is abiding scepticism that the crucial steel, shipbuilding and construction industries can be turned around in the next two years.

Viewed in retrospect, the recession has emerged in two phases. The first, which extended from the spring to the end of 1980, was primarily set off by the abrupt oil price hike in 1979 and the global downswing which followed in its wake. The second phase was marked by a strong rebound in exports, aided by the massive depreciation of the mark vis-a-vis other major currencies. As a result, German exports during the first half of 1981 alone exceeded the previous year's July-December level by 4.5 percent. Unfortunately, this second phase also witnessed a continuing decline in domestic demand.

### No stabilization in 1981

Overall results for 1981 can best be described as disappointing. At this time last year some analysts had hoped that output would show at least zero growth. When the final results for 1981 are tabulated, GNP is likely to show a real decline of 1 to 1.5 percent.

The unemployment problem deteriorated to an alarming degree. In November, 1,500,000 were registered on the jobless rolls, almost 530,000 more than a year earlier. For the full 12 months of 1981, unemployment will probably average out to 1,270,000. Due to the increasingly structural nature of the problem, even a moderate upswing in 1982 is not expected to prevent this number from leaping to over 1,600,000.

The traditional German bogie, inflation, stubbornly continued to defy Bonn's efforts to bring it down to a more tolerable level. Even conservative analysts a year ago predicted than 1980's 5.4 percent could be forced to retreat to about 5 percent. Against all reasonable efforts and expectations, inflation for 1981 has aver-

INTENTIONAL
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aged out to almost 6 percent. This setback, even in the face of stringent monetary policy and limp domestic demand, was largely attributable to external factors. Double-digit inflation in the economies of most of the Federal Republic's major trading partners translated into upward pressure on the internal price structure from imports. Similarly, though the volume of oil imports was down, the bill for total dollar-denominated oil shipments was up substantially due to the lower value of the German currency.

The brightest spot in the German economic picture in 1981 has been the surge in German exports. Indeed, foreign orders have constituted the only source of strength in the economy this year and have prevented the overall statistical tableau from assuming a more alarming bias. In the first ten months of the year, German exports came to DM 325 billion, a sharp leap of 11.6 percent over the corresponding period in 1980. If this dynamic flow of shipments abroad can be sustained through December, there is good reason to believe that the nation's alarming current account deficit of DM 29 billion last year can be cut in 1981 to a more manageable level of about DM 20 billion.

## The European malaise

The outlook for 1982 must inevitably be related to the European context, given the close economic ties that bind all of the countries of the European Community. Western Europe is still mired in the stagflation of the 1970's and is threatening to fall behind Japan and the U.S. in the push to construct the new economies of this decade. Many observers believe that the institutions built after World War II that laid the groundwork for political stability and economic growth are under the heaviest strain since the war.

Faced with soaring unemployment, debilitating outflows of capital for oil and anemic economic growth, European governments have expanded government outlays to the point where huge budget deficits have deprived them of any modicum of flexibility in buying time. Government spending, for instance, now constitutes more than 60 percent of the Netherlands' national income, more than half of Belgium's, and about 46 percent of France's and Germany's.

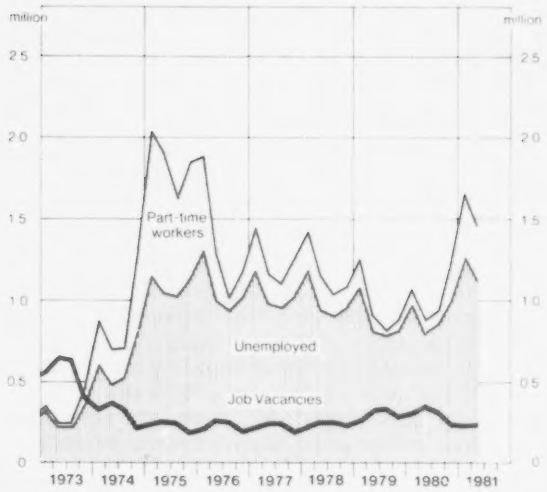
In their recent annual report, EC Commission economists predict that real growth in the nine-member Community might be 1 to 2 percent in 1982. By any yardstick, this will not be sufficient to reduce unemployment below its current political combustion point or to provide the income necessary to catalyze needed capital investment.

## Some improvement expected

Assuming that the global economic environment does not produce violent shock waves, the overall outlook for the German economy in 1982 is mildly favorable. Real growth for the new year should rise by 1 to 2 percent, following a decline of 1 to 1.5 percent in 1981. However, this modest expansion will too weak to prevent unemployment from jumping to an average of over 1,600,000 in 1982. Most analysts see the current stagnation persisting through the first half, with momentum building up some time in the summer.

German exports will probably grow at a somewhat slower pace than the robust rate registered in 1981, but they will grow. 1982 should see a real gain of about 4 percent, while inflation-adjusted imports are expected to expand by no

**Labour market**

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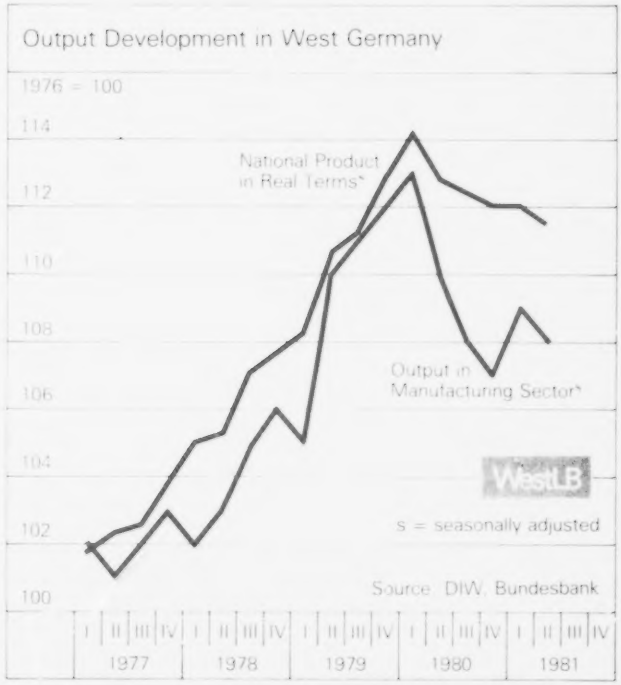


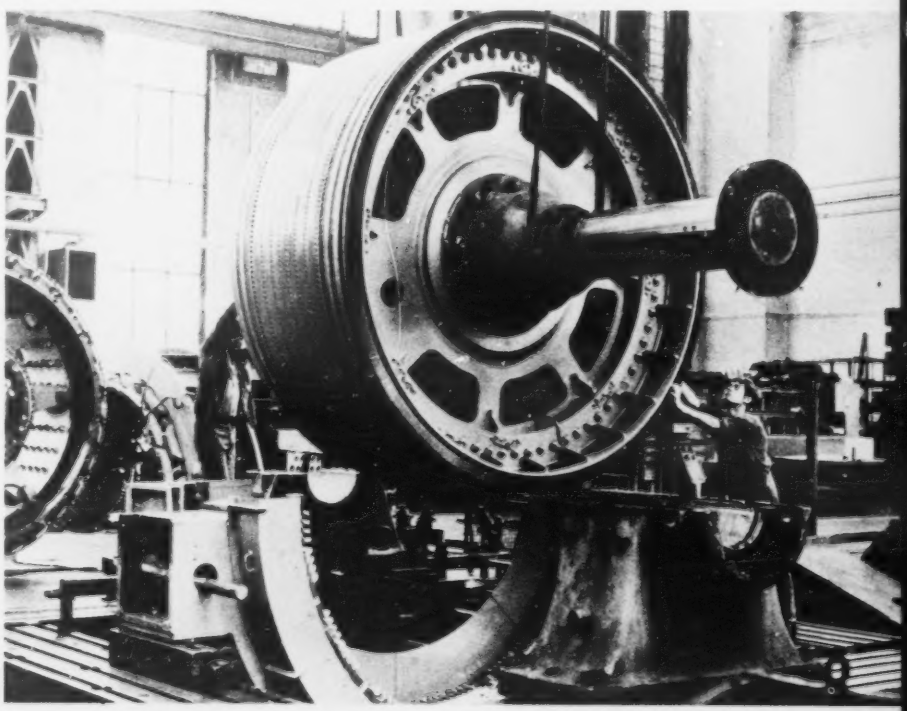

more than 1 percent.

This year should also see further progress in reducing the shortfall in the balance of payments on current account. The deficit for 1981 should amount to somewhere between DM 20 and DM 25 billion; 1982 could bring that figure down to only DM 10 billion, although some optimists see it virtually disappearing.

This prognosis, combined with the strong deterioration in the U.S. current account, will probably buoy the DM to around DM 2.00: US 1.00. The consensus is for inflation finally to subside to 4.5 percent, not least of all due to the anticipated fall in the bill for imported oil.

Rising unemployment should produce restrained union demands in the upcoming contract negotiations. Moreover, there are already signs that the Bundesbank's severely restrictive monetary policies will be eased somewhat over the course of the year.

Unencumbered by illusions, business, unions and the government should be entering the new year with a sober assessment of the limits of the possible. If so, the old formula that worked so well in the 1960's — hard work and modest expectations — may become fashionable again. ■



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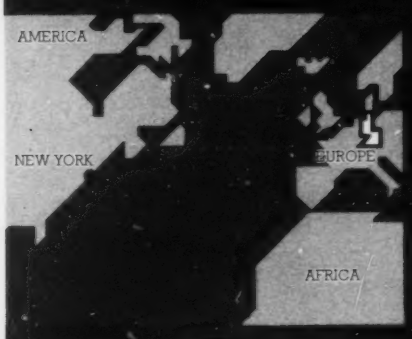


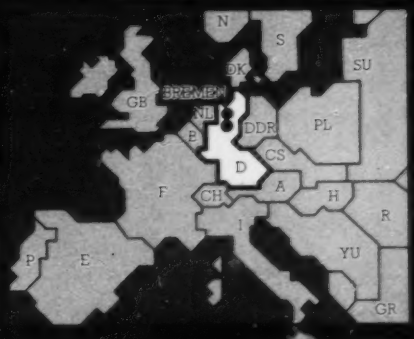


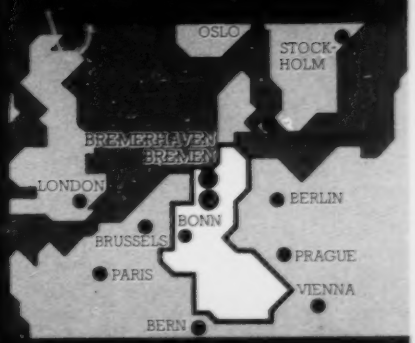

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# The Multiple Corporation Trap

**Sidney N. Roth**

The decision to enter the United States business market brings the exporter face-to-face with an entirely new set of problems. Included among these problems are tax laws that can create strange and, sometimes, surprising results. This is especially true in the manner the United States tax laws deal with two or more corporations subject to common ownership. This family of commonly controlled corporations is known as a multiple corporate group. Multiple corporate groups must apportion certain tax benefits and limitations among members of the group.

The purpose of the multiple corporation apportionment rules is to place separate business entities under common control on an equal tax level with a single corporation operating through several divisions. The most important of these apportionable items is the income tax rate brackets. The United States Corporation income tax rates are as follows:

| *Taxable Income* | *1981 Tax Rate* | *1982 Tax Rate* | *1983 and after Tax Rate* |
|---|---|---|---|
| $0-$25,000 | 17% | 16% | 15% |
| $25,001-$50,000 | 20% | 19% | 18% |
| $50,001-$75,000 | 30% | 30% | 30% |
| $75,001-$100,000 | 40% | 40% | 40% |
| $100,001-and up | 46% | 46% | 46% |

It would certainly be advantageous for each member of a multiple corporation group to have its own separate tax rate brackets. This would create quite an income tax savings through the use of lower rate brackets. Separate tax rates are not allowed for corporations that are members of a controlled group. A single rate bracket must be apportioned among all included members of a controlled corporate group.

*Mr. Roth is the director of the tax department and a vice president of Ligett, Marder & Co., Ltd., in Chicago, Illinois.*

## Controlled group

A controlled group of corporations consists of either a parent-subsidiary group (the parent corporation owning the subsidiary or daughter corporation's stock), a brother-sister group (two or more corporations with common ownership), or a combined group (a combination of parent-subsidiary and brother-sister).

*Parent-subsidiary:* A multiple corporate group is a "controlled" group for tax purposes if the stock ownership meets certain definitions. A parent-subsidiary group meets this definition if the parent-corporation owns 80 percent of a subsidiary corporation's stock. The definition of a parent subsidiary controlled group is illustrated by the following example:

Corporation P owns 80% of the stock of Corporation S, and S owns 80% of the stock of Corporation T. P is the common parent of a parent-subsidiary controlled group consisting of P, S and T. The result would be the same if P, rather than S, owned the stock of corporation T.

*Brother-sister:* Two or more corporations make up a brother-sister controlled group if five or fewer individuals own at least 80 percent of the stock of each corporation and the same five or fewer persons own more than 50 percent of the stock of each corporation. Only the identical ownership of each person is taken into account with respect to each such corporation.

A brother-sister controlled group may be illustrated by the following example: The outstanding stock of corporations P, Q, R, S and T is owned by unrelated individuals A, B, C, D and E in the following amounts:

| | Corporations | | | | | |
|---|---|---|---|---|---|---|
| *Individuals* | *P* | *Q* | *R* | *S* | *T* | *Identical Ownership* |
| A | 60% | 60% | 60% | 60% | 100% | 60% |
| B | 40% | | | | | |
| C | | 40% | | | | |
| D | | | 40% | | | |
| E | | | | 40% | | |
| Total | 100% | 100% | 100% | 100% | 100% | 60% |

Corporations P, Q, R, S and T are members of a brother-sister controlled group. Combined controlled group: Three or more corporation's constitute a "combined group", if the group contains both a parent-subsidiary relationship and

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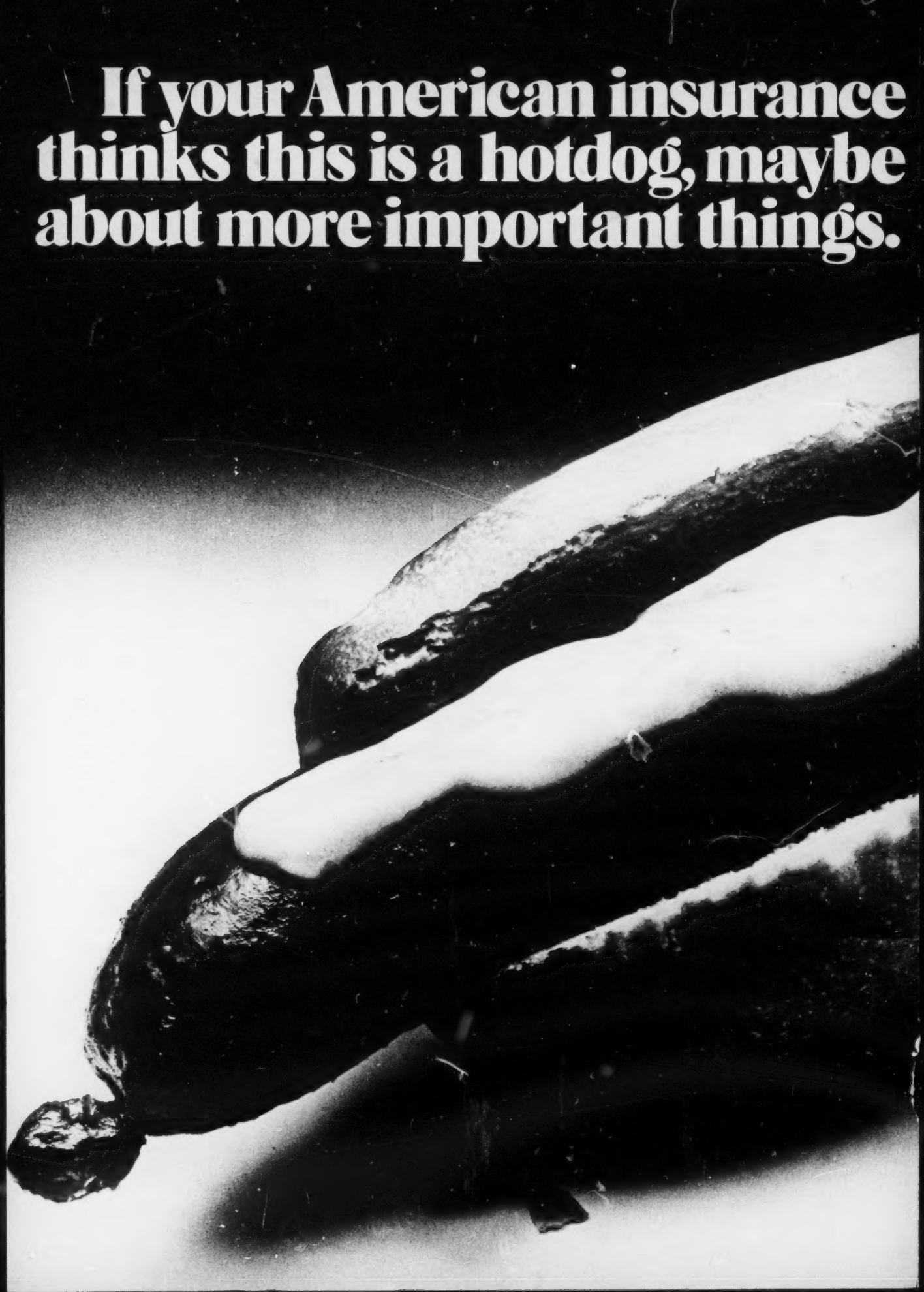

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a brother-sister relationship. If a group of corporations fits any of the three different stock ownership arrangements discussed, then it is a controlled group for income tax allocation purposes.

Stock ownership is the test to determine whether a controlled group exists. Not all corporate stock is considered when making this determination. Excluded from the percentage ownership test is stock that is: (a) non-voting, limited and preferred as to dividends; (b) treasury stock; (c) stock held in trust in a retirement plan; (d) subsidiary stock owned by a principal stockholder or officer of the parent corporation; and (e) subsidiary stock owned by an employee of the subsidiary with restrictions on the disposition of the stock.

### Excluded corporations

The United States tax law excludes certain corporations from the apportionments necessary for the controlled group. There are two types of excluded members that will be dealt with in this article: those excluded by time period in the group and foreign corporations. Other excluded corporations not considered in this article are tax exempt corporations, insurance companies and franchise corporations.

Time period: A corporation is excluded from membership in the controlled group for the year if from the date of entry into the group until December 31 the numbers of days are less than one-half of the number of days remaining in its taxable year. For example, a corporation with a February 28 year-end joining a controlled group on December 1 would be excluded for the initial year by having less than one-half the remaining days in its fiscal year preceeding December 31.

Foreign corporation: An excluded foreign corporation is one that is not subject to United States income tax and does not carry on any United States business. A foreign corporation, even though excluded from the apportionment calculation, can form part of the ownership chain creating a controlled group for several United States corporations. For example, if foreign corporation F owned all the stock of United States corporations S and T, then corporations F, S and T would form a parent subsidiary controlled group. Corporation F would be an excluded member. However, S and T must apportion all tax attributes. This is a common arrangement used by exporters in conducting different businesses in the United States.

### Controlled group apportionments

It is necessary for a multiple corporate group to apportion many different tax attributes among its members once controlled group status is determined.

*Tax rates*: The most important apportionment is the one involving the tax rate brackets. Members of a controlled group must apportion one tax rate bracket for the total taxable income of the group. Each $25,000 rate step may be separately apportioned among group members.

*Investment tax credit*: There are two apportionable limitations related to the investment tax credit. First is the amount of credit a corporation may use in any given year. The limitation for investment tax credit utilization is $25,000 plus 80 percent (90 percent in 1982) of tax liability exceeding $25,000. A controlled group must apportion this $25,000 limitation. The second limitation relates to the acquisition of eligible used property. Used property of up to $125,000 per year ($150,000 after 1984) is eligible for investment tax credit. A controlled group must apportion this used property limitation.

*Expensing certain assets*: Beginning after 1981, all taxpayers may elect to expense $5,000 (increasing to $10,000 in 1986) of business property. A controlled group must apportion the annual dollar limitation for the expense election among all members of the group. For this purpose, the definition of controlled group is changed to 50 percent control, rather than the general rule of 80 percent.

*Accumulated earnings tax credit*: Earnings accumulated in excess of the reasonable needs of the business could cause the Internal Revenue Service to impose a tax against this accumulation. This is generally imposed when it is determined that these earnings are accumulated in order to avoid tax on their distribution. Beginning in 1982, most corporations are allowed a minimum $250,000 accumulation credit against this tax. A controlled group must apportion this minimum credit.

*Minimum tax exemption*: An additional tax of 15 percent is added to the regular corporate income tax in some cases. The minimum tax is assessed against certain income and deduction items exceeding $10,000 receiving preferential tax treatment. An example of items receiving preferential tax treatment would include capital gains and accelerated cost recovery on real estate. A controlled group must apportion the $10,000 minimum tax exemption.

*Retirement plans*: Under the Employee Retirement Income Security Act of 1974 (the Pension Reform Act), all corporations in a controlled group are treated as one employer and all employees of the controlled group are considered as being employed by one employer for the purpose of tax qualified retirement plans. A retirement plan (pension plan or profit sharing plan) adopted by any member of a controlled group causes the other members of the group to adopt a similar plan to cover their employees.

### Apportionment plan

The members of a controlled group may apportion the various tax attributes in one of two ways. One method is to file a written statement or election with the tax returns of each corporation apportioning the tax benefits in any way the group deems to be to its best advantage. For example, if a foreign parent corporation has two United States subsidiaries with one incurring a loss and the other showing a profit, it would be best to apportion the full amount of the tax rate brackets, investment credit limitations and minimum tax exemption to the profitable corporation. The asset expensing election limitation and the accumulated earnings tax credit would be apportioned as needed between the members.

The other method of allocation is to not file any statement with the corporate tax returns. The United States income tax regulations state that any controlled group failing to file an apportionment plan shall be presumed to allocate all tax attributes equally to each member of the group. This could have a negative effect such as in the example previously cited.

Multiple corporations can prove to be useful tools in conducting different lines of business, limiting liability between product lines and reducing state taxation complications. There is, however, a certain amount of planning necessary when dealing with multiple corporations to insure that the maximum benefits are derived for the entire group. This problem is further complicated by the parent-corporation having subsidiaries located in different parts of the United States with no centralized record keeping or accounting. When considering the potential dollars involved in any tax decision regarding multiple corporations, competent professional advisors should be consulted. ■

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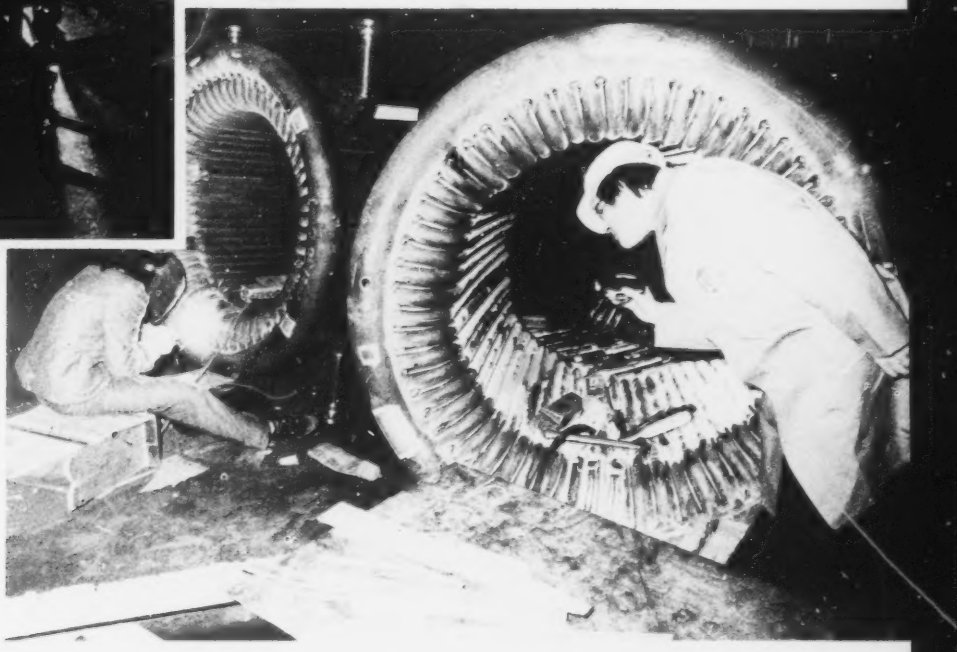
**Dr. Klaus Spiegel**



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*Dr. Spiegel is managing director of TUV Rheinland's New York branch office.*

### Export market advantages

In a diversified world, in which know-how, labor and raw materials, the elements necessary to support technological production and implementation, are unequally distributed around the globe, international cooperation is a compelling necessity if equalization is to be accomplished. TUV experts have been working for many years in those foreign countries in which German manufacturers have built factories from top to bottom. In the

process, they have undertaken to provide inspections and expert advice in a spirit of encouraging industrial safety.

These auxiliary services of TUV to the export industry contribute to guaranteed trust and cooperation with the foreign partner, since the generally recognized impartiality of TUV Rheinland is beneficial not only to the customer, but in equal measure to the manufacturer.

The knowledge of how national and international laws, regulations, specifications and norms are interpreted and how they operate in practice, what tests and quality controls are necessary, is an important prerequisite to successful exportation. With its foreign office in New York*, TUV Rheinland now has experts "on the spot". Good relations with the National Bureau of Standards (NBS), which sets American norms, as well as the cooperation of national and other international agencies governing specialized areas, makes possible effective assistance to manufacturers and industry, because TUV Rheinland can help its clients with up-to-the-minute information about technical specifications in the important areas of safety, environmental protection, and energy. TUV Rheinland awards the GS-Certificate of Safety in the areas of tools and machinery, consumer products, and medical equipment.

## Relevance to American firms

This is particularly relevant to the export of machinery and equipment, because, by assuring technological safety, this legally defined certificate gives a better standing in the marketplace. This is also true of American safety certifications (e.g., Underwriters Laboratories) whose achievements TUV Rheinland gladly assists and supports. To this end, TUV Rheinland cooperates with independent testing laboratories in the USA. The following institutions which are especially important for German export are included in this:

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- The U.S. federal government agency in charge of consumer goods, the Consumer Product Safety Commission
- In the area of conservation, the Environmental Protection Agency (EPA)
- In medical technology, the Food and Drug Administration (FDA)
- In the area of safety technology in workplaces and manufacturing plants, the Occupational Safety and Health Administration (OSHA)
- In the area of traffic safety, the Department of Transportation (DOT) and the National Highway Traffic Safety Administration (NHTSA)

TUV Rheinland supports both German and American exporters in their activities abroad, that is, in the export of products which are subject to its supervision — technological equipment and machinery, medical equipment, motor vehicle accessories, components and trailers. In continuous cooperation with the German and American Chambers of Commerce and Industry, TUV experts offer important assistance in other areas related to actual exportation. Providing inspections essential to the maintenance of quality controls or fulfillment of legal requirements directly to the producer has proven to be both time saving and economical. In this way the producers can be certain that their products meet the legal requirements and the needs of the marketplace.

With the increasing growth of trade in commodities and products, where market outlets must be sought not only within one's own borders but also abroad, international trust and cooperation are becoming more and more important. TUV Rheinland believes that its New York office has contributed to this. ■

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# Leasing Opportunities Created by the Economic Recovery Tax Act

**Alasdair Findlay-Shirras**

From the moment President Reagan signed into law the Economic Recovery Tax Act on August 12, 1981, the rush has been on among major U.S. corporations to purchase or sell tax benefits relating to 1981 equipment prior to the arbitrarily imposed deadline of November 12, 1981 for 1981 equipment placed in service prior to the Act.

One potential lessor considered the opportunity so important that by the end of August it was placing full page advertisements in the financial press to attract "entrepreneurs" who had embarked in 1981 on major capital expenditure programs and who could benefit from the immediate cash flow benefit of a sale of tax benefits relating to their equipment. What then are these new tax benefits and how may German-owned or controlled companies established in the United States take advantage of them?

The principle feature of the Economic Recovery Tax Act is the accelerated cost recovery system ("ACRS"). ACRS essentially replaces the useful life depreciation rules, which have become outmoded as persistent inflation has reduced the effectiveness of the depreciation allowance to recover the cost of capital expenditures.

Recovery has two meanings — one political, as Mr. Reagan hopes the Act will encourage U.S. businessmen to make new productive investments and spur an economic recovery; the other economic, as ACRS allows highly accelerated recovery of the cost of an investment. It is hoped that the cost of this Act to the Federal Government, variously estimated at up to $8.0 billion in lost taxes, will be more than outweighed by the substantial increase in capital investment and future taxes.

### Impact of ACRS in 1981

Many taxpayers will find that the ACRS provisions will reduce or eliminate their current-year tax payments. Others will be entitled to refunds of prior years' taxes as a result of generating current year net operating losses that can be carried back. Other taxpayers who cannot presently benefit from ACRS should examine their options under ACRS; either to elect to spread deductions over longer periods or to take advantage of the liberalized leasing provisions, which allow:

1. tax benefits to be sold for cash;
2. bargain purchase options; and
3. lessee to be lender in a leveraged lease.

To qualify for ACRS, capital expenditures must be for "recovery property" namely any depreciable, tangible property used in business or held for the production of income and placed in service during or after 1981.

Under ACRS, capital expenditures are generally recovered over three, five, ten or fifteen years, depending on type. Three-year property has an Asset Depreciation Range ("ADR") class life of up to four years (primarily autos and light trucks and certain special tools). Five-year property consists of all machinery and equipment and ten- and fifteen-year property includes public utility property and real property.

To make ACRS tax benefits (investment tax credit and depreciation) more freely transferable between businesses, the Act provides in Section 168 (f) (8) a more flexible "safe harbor" rule to assure that qualifying transactions are treated as leases for tax purposes.

The following are the principle safe harbor guidelines under the Act:

(a) The lessor and lessee must enter into an agreement characterizing the transaction as a lease.

(b) The parties must affirmatively elect to have the lessor treated as the owner of the property.

(c) The lessor must be either:

(i) a corporation, other than a Sub-chapter S corporation or a personal holding company;

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*Mr. Findlay-Shirras is a vice president of Associated European Capital Corporation, the U.S. investment banking affiliate of Bayerische Vereinsbank (Union Bank of Bavaria).*

## CALCULATION FOR NOMINAL LEASE LESSOR'S TAX EFFECTS ($US)

Assumptions: Equipment cost of $10,000,000
Front-end lessor's payment of $1,900,000
Lease term 5 years and coupon of 15%

| Year | Rental Payments | Interest at 15% | Amortization | Recovery | Taxable Income | Tax Effect (at 46%) | NPV of Tax Effect |
|---|---|---|---|---|---|---|---|
| 1981 | 0 | 0 | 0 | 1,500,000 | (1,500,000) | (1,690,000)* | 1,690,000 |
| 1982 | 2,416,356 | 1,215,000 | 1,201,356 | 2,200,000 | (998,644) | (459,376) | 399,458 |
| 1983 | 2,416,356 | 1,034,797 | 1,381,559 | 2,100,000 | (718,441) | (330,483) | 249,892 |
| 1984 | 2,416,356 | 827,563 | 1,588,793 | 2,100,000 | (511,207) | (235,155) | 154,618 |
| 1985 | 2,416,356 | 589,244 | 1,827,112 | 2,100,000 | (272,888) | (125,528) | 71,771 |
| 1986 | 2,416,356 | 315,177 | 2,101,179 | — | 2,101,179 | 966,542 | (480,542) |
| | $12,081,780 | $3,981,780 | $8,100,000 | $10,000,000 | $(1,900,000) | $(1,874,000) | $2,085,197 |

Net present value discounted at 15% as a percentage of equipment cost: *20.85%*
*includes $1,000,000 (10%) ITC.
*Source: Associated European Capital Corporation*

(ii) a partnership composed of qualifying corporations; or
(iii) a grantor trust, of which the grantor and all beneficiaries are qualifying corporations.
(iii) a grantor trust, of which the grantor and all beneficiaries are qualifying corporations.

(d) The lessor's "at risk" investment at all times during the lease must be at least *10* percent of the adjusted basis of the property.
(e) The term of the lease cannot exceed the *greater* of:
(i) 90% of the property's actual useful life, or
(ii) 150% of the property's asset depreciation range midpoint life.
(f) The property must be either:
(i) new investment tax credit property of the lessor that is leased within three months of the date it is placed in service and that, if acquired by the lessee, would have been new investment tax credit property of the lessee, or
(ii) new investment tax credit property of the lessee acquired in a sale and leaseback transaction that is purchased by the lessor and leased back within three months after having been placed in service by the lessee. The purchase price paid by the lessor to the lessee may not exceed the lessee's adjusted basis at the time of the purchase. In the case of property placed in service between January 1, 1981 and August 13, 1981, the three-month period is measured from August 13, 1981 rather than from the date the property was placed in service.

If these requirements are met, no other factors shall be taken into account in determining whether the agreement shall be treated as a lease or the lessor shall be treated as the owner of the property.

### Nominal lease structure

The most usual structure employed over the past few weeks has been the nominal lease sale-back, whereby the owner/lessee of the equipment sells it, for federal tax purposes only, to the investor/lessor, who simultaneously leases it back to the lessee. The lessor pays his equity in cash to the lessee, the amount representing a negotiated net present value of the tax benefits relating to the equipment, namely ITC and depreciation. The balance is financed by means of a note payable to the lessee. The lessor then sets lease rental payments from the lessee to exactly match the note interest and principal payments. In effect the only exchange required is the front-end payment for the tax benefits.

Variations on the theme are possible, including increasing lease rentals over note payments, bullet maturities and greater purchase options at maturity in exchange for a larger front-end lessor down-payment. However, in view of the untried nature of the market, simplicity is encouraged.

### Economic analysis of benefits

With the demise of unknown residual values, methods used by lessors to evaluate the costs/benefits of leasing no longer apply and several alternative schools of thought have developed:

*To consider the purchase of tax benefits as any other investment opportunity.*

For example, in the sale-leaseback arrangement, the lessor makes an initial cash outlay at closing. Afterwards, cash flow is determined throughout the lease term by the tax effects of ITC, depreciation and interest deductions and rental income. The stream of these items generally translates to cash inflow or tax shelter in the early years and then outflow (or taxes payable) in the later years, netting to zero in the aggregate. See table.
However, due to the timing of the inflows and outflows, the lessor receives a positive present value of the total annual cash flows, i.e. it gives a return on investment.

*To consider the transaction as a delayed drawdown borrowing from the Government with a substantial front-end fee repaid out of future (deferred) taxes.*

*To consider the value of the deferral of taxes over the lease period.*

The lessee may have a somewhat more difficult evaluation to make. In some cases, the lessee may be able to use the ITC or depreciation deductions in a future year (before the 15 year carryover period expires). Because the lessee gives them away, it may be foregoing a benefit measured by the present value of the future benefit. Also, because tax losses are thrown off by the sale-leaseback (excess of rent expense over interest income) the same problem arises in measuring the potential benefit, i.e. when and what is the present value of those deductions. Therefore, in the case of a potentially profitable lessee, these effects have to be

considered in addition to the benefit of the upfront cash payments from the lessor.

Generally, absent credit considerations, lessors prefer longer maturities and lessees, which expect to become profitable, prefer shorter maturities, but much depends on each party's tax rate, risk profile and the discount factor used.

In view of the variety of evaluation techniques, pricing, particularly for the lessee, is a complex calculation, subject to the changing perceptions of risk and the supply and demand of counterparties. The supply of good size equipment available for 1981 tax lease purposes with prime lessee credits is limited and such lessees may expect to negotiate a front-end payment of anywhere between 10 cents and 30 cents on each $1.00 of equipment cost, depending on the perceived risks and the maturity of the nominal lease.

Although at the time of writing transactions in respect of many billions of dollars have already been negotiated, the transactions' closing, in most cases, have been delayed pending the publication of regulations, available as of October 20th, and IRS rulings and the response of the accounting profession.

The major participants on the lessor side have been the most profitable Fortune 100 companies and on the lessee side, a mixed bag of railroads, steel companies, airlines and automobile companies or any company that misjudged its 1981 profitability or is in a net operating loss carry-forward position. In time, we believe the market will become much broader, with a fairly liquid market in tax benefits developing.

### Miscellaneous concerns

Lessors may view the credit risk of these transactions differently. The Congressional Record states that the tax benefits are sold without recourse to the lessor, but until the regulations stipulate this, the concern remains, in the event of lessee bankruptcy or other casualty, that unused benefits could be recaptured.

There are a number of other areas of concern such as: the state and local tax consequences; the possibility of fraudulent transactions where the lessee purports to transfer tax benefits which it has already sold; the problem of auditing tax entitlements and the administration of the lease transactions. This latter problem is being tackled by the establishment of joint ventures between Fortune 100 taxpayers and leasing companies experienced in this area.

Despite these concerns, the market is developing rapidly and every company embarking on a major capital investment program in the United States should examine its options under the Economic Recovery Tax Act very carefully. In particular, those subsidiaries of German companies which have recently started business operations in the United States and are planning substantial capital expenditures, would normally find it beneficial to sell their tax benefits to those corporations which expect to be in a fully tax-paying position in the years to come.

It should be noted that, due to the complexity of transactions and the required knowledge of a rapidly shifting market, nearly all buyers and sellers have sought the advice of the few investment banks experienced in this field. In selecting an advisor, or agent, only those should be chosen who have already placed a substantial amount of tax benefits under the new law, as the old leasing rules are completely inapplicable and the market for lessors is substantially different. ■


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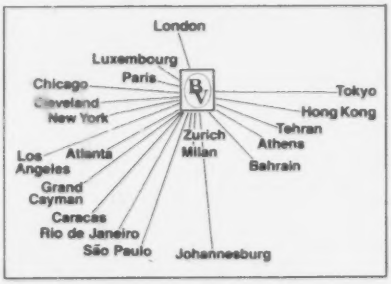


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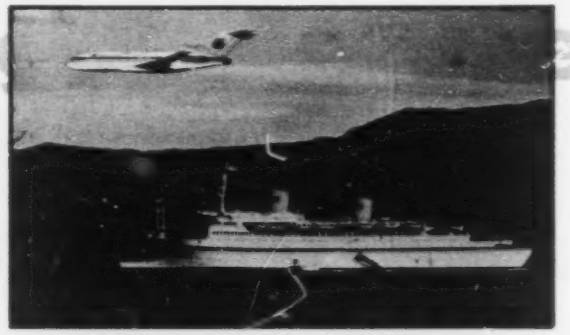

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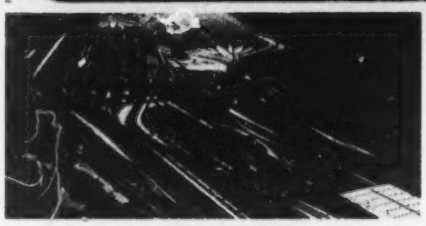

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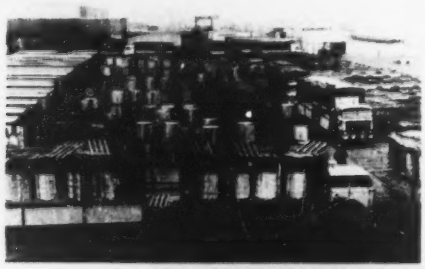

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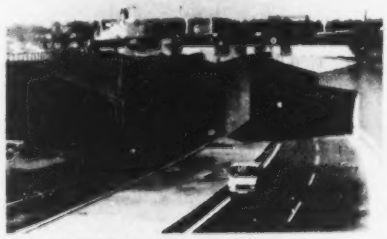

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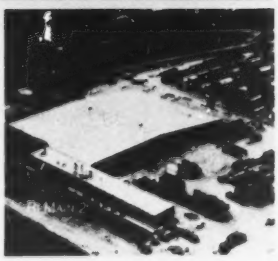

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# Port of Hamburg

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German-American Trade News

JANUARY-FEBRUARY 1982

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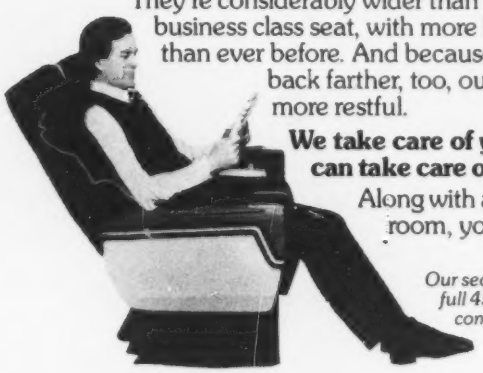

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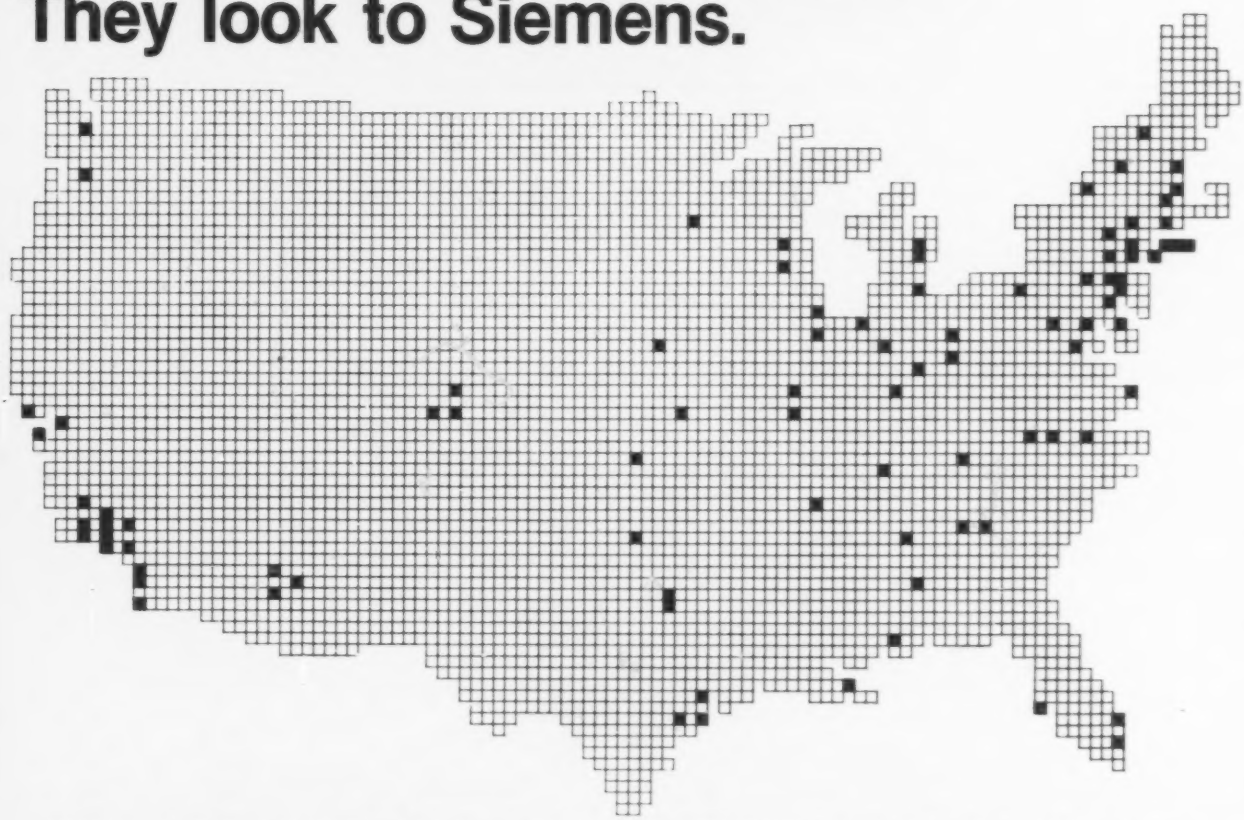

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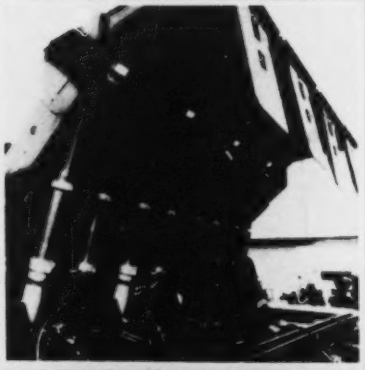

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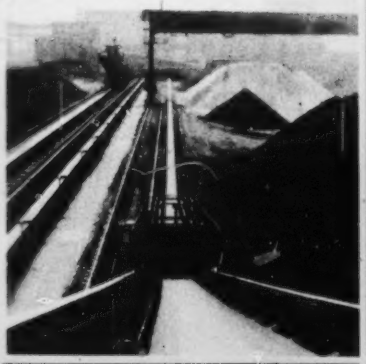

**5**

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VOL. 36 NO. 1 JANUARY/FEBRUARY

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# Chamber Commentary

## Weaving the noose

A sage once observed that a rope around one's neck serves to concentrate the mind wonderfully. Perhaps. But the ever tightening noose of protectionism today appears to be having just the opposite effect. Each month seems to produce some new scheme in Europe or the United States that is paraded as a virtuous attempt to realign fair competition and protect jobs.

The most recent example of this phenomenon is the reciprocity legislation being drafted by Sen. John Danforth, chairman of the Senate Finance Trade Subcommittee. Now, reciprocity at first glance looks like a fairly benign rubric. In its most basic sense, it means that countries should establish equality of trade access with each other on a sector-by-sector basis. As far as it goes, this sounds fair and even attractive. But appearances belie the reality. One man's reciprocity is usually another man's protectionism. We recall, for instance, the Smoot-Hawley tariff of 1930. Its stiff levies were reciprocated by the Europeans and the world sank even deeper into depression. We assume that is not what Senator Danforth has in mind, but it may be what he will get. A little bit of protectionism is about as containable as a little bit of cancer.

This alarm clearly is not a voice crying in the wilderness. The majority of our leaders need no lectures on the benefits conferred by the enlightened free trade structure developed over the past two decades. But the voices of the minority advocating quasi-protectionist policies are becoming increasingly strident, and all too often the wheel that squeaks the loudest gets the oil.

The prime catalyst in the move to erect new trade barriers is the Japanese. Their export offensive has been all too successful in both Europe and the United States. The Japanese trade surplus with the U.S. last year amounted to a stunning $18 billion and threatens to eclipse that figure in 1982. By any standard, Japan effectively remains a closed market, and its recent removal of 67 non-tariff barriers will do little to alter that description. At the same time, we all live in glass houses. An impartial judge can also find many trade barriers in the U.S. and Europe, which should give some pause to those who would throw stones.

It is neither dramatic nor alarmist to characterize the present international trade situation as being at the crossroads. The industrialized nations can either retreat to protectionist policies reminiscent of the 1930's, or re-assert the statesmanship they displayed in founding a mutually beneficial global trade system over the last 20 years. We do not live in the perfect world that reciprocity presumes. Reciprocity, here or in Europe, is an instrument, and its name is boomerang.

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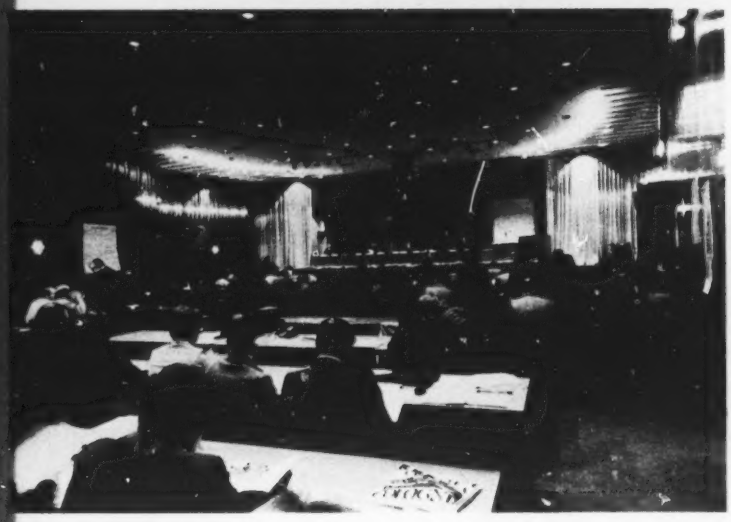
# Trade Fairs

**ORGATECHNIK in 1982**

The International Office Trade Fair ORGATECHNIK, to be held for the fourth time in Cologne from October 26-31, 1982, is the only trade fair in this field in Europe, offering a complete spectrum of the international supply of products and problem-resolutions covering all aspects of the multifaceted office and information industry. It cannot be compared to fairs which are included in multi-trade events. As a specific trade event, it has an important marketing function in international business. For the 1982 ORGATECHNIK in the fall, Cologne expects more than 1,300 companies from 25 countries, among them 75 from the United States. This will exceed the record of 1980, which was 1,115 companies from 23 countries, including 63 American firms. A number of United States companies will again participate in a joint stand which will be organized by the German American Chamber of Commerce.

In 1980 the fittings and contract trade was represented by 461 companies, including 143 abroad. In 1982 Cologne expects 520 companies, 170 of them from abroad. The United States will be represented in this sector by about 80 companies. In 1980 the office systems trade was represented by 675 companies, among them 69 foreign firms. They included 330 exhibitors who displayed communications equipment and data processing systems, providing a comprehensive review of the performance potential of the information processing industry. In 1982, 780 companies are expected, 120 of them from abroad. About 50 percent of these companies will show sophisticated information-industry products. The United States will probably be represented by 45 companies and some of them will also introduce systems able to meet the requirements of the "communications company of tomorrow".

In 1980 United States companies exhibited in addition to contract furniture for educational and social facilities as well as for visitor and conference rooms, all marketable machines, systems and technologies for technical office needs. At that time the German American Chamber of Commerce organized a group participation for the first time. For American companies the trade fair was satisfactory in general while individual suppliers of technical office products referred to "outstanding results".



Interest in group participation has generally increased. In 1980 there were official exhibitor groups from 9 countries and for 1982, eleven countries have registered for group participation thus far. Canada and France will be represented for the first time; registered again, in addition to the United States, are Great Britain, Italy, the Netherlands, Sweden, Denmark, Norway, Finland and Lebanon.

### World Market for Furs

Nearly 550 exhibitors from 29 countries will participate in the 34th International Frankfurt Fur Fair and submit a comprehensive range of skins and fashions to the expected 25,000 trade visitors. The overwhelming choice will be displayed from April 17-21 in two halls over a total area of 55,000 square meters.

Apart from the German fur trade, the following nations will be represented by exhibitors in Frankfurt: Argentina, Australia, Austria, Belgium, Brazil, Canada, Peoples' Republic of China, Czechoslovakia, Denmark, Finland, France, GDR, Great Britain, Greece, Hongkong, Hungary, Israel, Italy, Netherlands, New Zealand, Norway, Poland, Spain, SWA/Namibia, Sweden, Switzerland, USA and USSR.

On the part of the visitors, too, there appears to be a very strong interest. According to the Fair organizer, the Frankfurter Rauchwaren-Messe GmbH, there has been an unprecedented flood of ticket reservations and groups announced from all over the world this year.

Both exhibitors and buyers stress that they could not afford to miss the Frankfurt forum of contact, trade and information from all markets for all markets. The International Fur Fair sets the pace and helps to give direction for the rest of the year.

The exhibition halls for 1982 will display nearly 550 competing stands offering everything from skins to current fashions and attractive fur garments, latest developments in fur processing, patterns and accessories. A special part of the Fair ground will be reserved for the suppliers of technical equipment. There the visitors can get first-hand information about the newest tools and machines for cost-saving rationalization.

# 1982 Fair Dates to Remember

Exhibition Cities 1982

| Names | Dates |
|---|---|
| **Berlin** | |
| International Green Week Berlin 1982 (FKM) | Jan. 22-31 |
| ITB Berlin 1982 International Tourism-Exchange (FKM) | Feb. 27-Mar. 3 |
| BERLINER INTERCHIC – Main Sampling – | Apr. 18-21<br>Oct. 10-13 |
| Medical Congress Berlin 1982 in Conjunction with International Pharmaceutical and Medico-Technical Exhibition | Jun. 1-5 |
| 20th Overseas Import Fair "Partners for Progress" Berlin (FKM) | Sept. 8-12 |
| **Cologne** | |
| International Furniture Fair (FKM) | Jan. 19-24 |
| ISM – International Sweets and Biscuits Fair (FKM) | Feb. 1-5 |
| DOMOTECHNICA – International Fair for Household Appliances, Fittings and Components (FKM) | Feb. 10-13 |
| International Housewares Fair (FKM) | Feb. 11-14 |
| International Hardware Fair – Tools, Locks + Fittings, D-I-Y Supplies (FKM) | Feb. 13-16 |
| International Men's Fashion Week Cologne together with International Jeans Fair Cologne (FKM) | Feb. 26-28<br>Aug. 27-29 |
| International Trade Fair CHILDREN and YOUNG PEOPLE (FKM) | Mar. 12-14<br>Sept. 24-26 |
| dentechnica 7th International Congress of Dental Technicians with Trade Exhibition for Dental Laboratories | Apr. 21-24 |
| "handarbeit" International Trade Fair Creative Textile Handicraft (FKM) | Apr. 29-May 5 |
| IMB – International Clothing Machinery Fair (FKM) | May 18-22 |
| ROOF & WALL 82 Specialized trade fair for roof, wall and insulation technique in conjunction with the 83rd german roofing contractors congress (FKM) | Jun. 17-20 |

Exhibition Cities 1982

| Names | Dates |
|---|---|
| **Cologne** | |
| SPOGA – International Trade Fair of Sports Goods, Camping Equipment and Garden Furniture (FKM) | Sept. 4-7 |
| International Garden Trade Fair (FKM) | Sept. 5-7 |
| IFMA – International Bicycle and Motor Cycle Exhibition (FKM) | Sept. 16-20<br>Trade visitors' days:<br>Sept. 16-17 |
| photokina World's Fair of Photography – Photo – Cine – Audiovision (FKM) | Oct. 6-10 |
| ORGATECHNIK Cologne 4th International Office Trade Fair (FKM) | Oct. 26-31 |
| **Düsseldorf** | |
| boot '82 – Düsseldorf 13th International Boatshow Düsseldorf (FKM) | Jan. 23-31 |
| METAV Exhibition of Metal Processing (FKM) | Feb. 13-17 |
| IGEDO International Fashion Trade Fair *) with IGEDO-DESSOUS Trade Fair for Lingerie, Foundations, Swimwear | Mar. 7-10<br>Apr. 25-28<br>Sept. 12-15<br>Oct. 24-27 |
| GDS International Footwear Trade Fair (FKM) | Mar. 20-22<br>Sept. 25-27 |
| DRUPA – 8th International Fair Printing and Paper (FKM) | Jun. 4-17 |
| hifivideo International Fair with Festival (FKM) | Aug. 20-26 |
| GLAS International Trade Fair for Industry, Trade and Handicraft. Applications – Machinery – Equipment (FKM) | Sept. 29-Oct. 2 |
| GIB Industrial Cleaning, Factory Hygiene Maintenance and Repair. International Trade Fair and Congress (FKM) | Oct. 6-9 |
| hogatec International Trade Fair for Hotels, Restaurant and Catering (FKM) | Nov. 8-12 |
| INTERBAD International Exhibition of Swimming Pools – Medical Baths – Saunas – Technical Equipment (FKM) | Nov. 10-14 |
| MEDICA – International Congress and Trade Fair. Diagnostica – Therapeutica – Technica (FKM) | Nov. 17-20 |

| Names | Dates |
|---|---|
| **Frankfurt/M.** | |
| HEIMTEXTIL<br>International Trade Fair for Home and Household Textiles (FKM) | Jan. 13-17 |
| IMA – International Amusement and Vending Machines Trade Fair (FKM) | Jan. 21-24 |
| Music Fair Frankfurt – International Trade Fair, Musical Instruments – Orchestral Electronic Equipment – Musical Accessories – Music Publications (FKM) | Feb. 13-17 |
| Frankfurt International Fair<br>International Trade Fair for Consumer Goods (FKM) | Feb. 27-Mar. 3<br>Aug. 28-Sept. 1 |
| International Fur Fair Frankfurt | Apr. 17-21 |
| interstoff –<br>Trade Fair for Clothing Textiles (FKM) | May 5-7<br>Nov. 2-5 |
| ACHEMA 82 – 20th Chemical Engineering Exhibition-Congress | Jun. 6-12 |
| automechanica – International Trade Fair for Equipment for Motor Car Workshops and Service Stations, Motor Car Spare Parts and Accessories (FKM) | Sept. 14-19 |
| Frankfurt Book Fair | Oct. 6-11 |
| HOGA – Trade Exhibition Hotel and Restaurants, Culinary Art, Delicatessen, Fast Food (FKM) | Oct. 24-28 |
| **Hamburg** | |
| InternorGa –<br>International Trade Exhibition for Hotels, Catering, Bakeries and Confectioners (FKM) | Mar. 12-17 |
| International Exhibition and Congress Ship, Machinery and Marine Technology (FKM) | Sept. 28-Oct.2 |
| 23rd German International Boat Show with EMTEC Trade Days (FKM) | Oct. 21-31 |
| **Hanover** | |
| CONSTRUCTA<br>The Building Trade Fair (FKM) | Feb. 3-10 |
| didacta 82<br>19th International Trade Fair for Schools, Education and Training (FKM) | Mar. 8-12 |
| Hanover Fair (FKM) | Apr. 21-28 |
| FAB – Trade Exhibition for Hospital Equipment (FKM) | May 11-14 |
| International Aerospace Exhibition Hanover – ILA | May 18-25 |

Exhibition Cities 1982

| Names | Dates |
|---|---|
| **Munich** | |
| INHORGENTA<br>International Trade Fair for Watches, Clocks, Jewellery, Precious Stones and Silverware with their Manufacturing Equipments (FKM) | Feb. 13-16 |
| ISPO<br>International Sports Equipment Fair (FKM) | Feb. 25-28<br>Sept. 9-12 |
| IHM<br>34th International Light Industries and Handicrafts Fair. The Fair for small and medium-sized Enterprises (FKM) | Mar. 13-21 |
| MODE-WOCHE-MÜNCHEN<br>International Fashion Fair | Mar. 28-31<br>Oct. 3-6 |
| ANALYTICA<br>International Exhibition with Conference International (FKM) | Apr. 27-30 |
| COSMETICS<br>International Trade Fair for Cosmetics, Health and Beauty Care (FKM) | May 7-9 |
| 57th DLG-Exhibition<br>International Agricultural Show (FKM) | May 20-26 |
| TRANSPORT<br>Goods and passenger transport systems – today and tomorrow<br>International Trade Fair with Congress, Meetings and Info-Market (FKM) | Jun. 15-19 |
| INTERFORST<br>International Trade Fair for Forestry and Timber Technology with International Congress and Special Shows (FKM) | Jun. 29-Jul. 7 |
| IKOFA<br>International Trade Fair of the Food Industry (FKM) | Sept. 21-26 |
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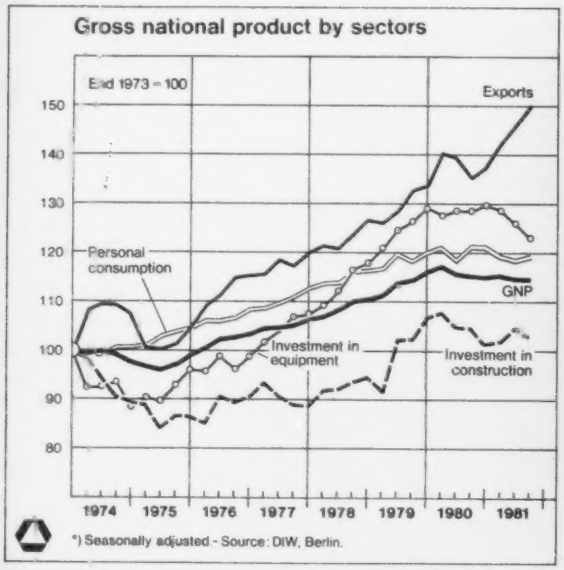
# Uneven German Industrial Performance in '81

Germany's overall economic performance last year was something of a forecaster's roller-coaster. By mid-1981, the economy was clearly disappointing the generally positive analyses of early January. Six months later, it had become equally obvious that the summer gloom had also been exaggerated. In sum, 1981 was one of those years that delivered somewhat less than the New Year optimists had predicted and produced a good bit more than the mid-summer Cassandras had written off.

A perusal of the German business press over the last few months could lead the interested observer to the conclusion that a sort of economic Goetterdaemmerung is about to occur in the Federal Republic. Extravagantly dramatic headlines to the contrary, there are few major industrial countries in the world who would not gladly exchange their own economic



statistics in 1981 for Germany's. The shrinkage of 0.3 percent in gross national product was more of an embarrassment than a bruise; average inflation, at 5.9 percent, was high by German standards but an enviable achievement in a world where most countries logged the figure in double digits; and the trade surplus of DM 26.5 billion was undeniably robust. Only the unemployment rate of 7.3 percent registered in December can truly be described as a major setback.

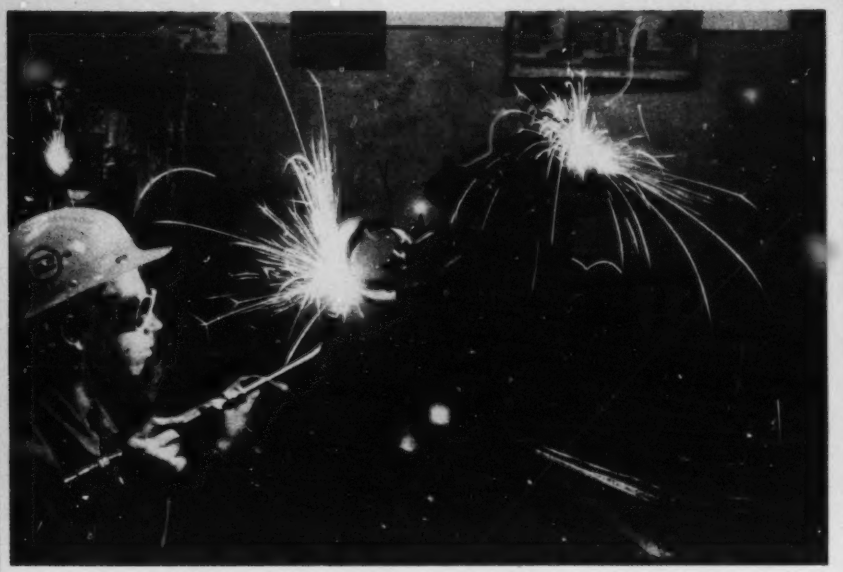
What then, asks the puzzled observer, are the Germans complaining about? Well, as Wall Street brokers are fond of proclaiming, you don't buy the averages, you buy stocks. In this vein, positive macroeconomic statistics do little to assuage the pain of German business executives in some industries who have seen sales and profits plummet over the past year. In the real world of German business, some industries performed creditably, while others suffered painful setbacks. The causes were, of course, varied and complex. Not least of all, though, Germany's export-dependence — the Federal Republic last year shipped a bit more than 25 percent of its GNP to foreign customers — means that business conditions abroad are as important as the domestic economic environment. A selected industry-by-industry breakdown serves to illustrate the disparate results achieved in 1981 in a few key industries.

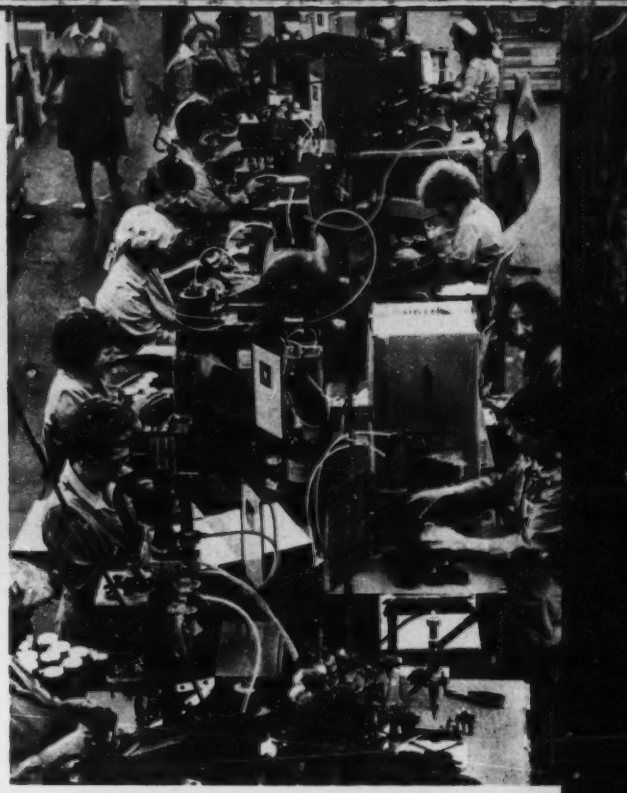
## STEEL

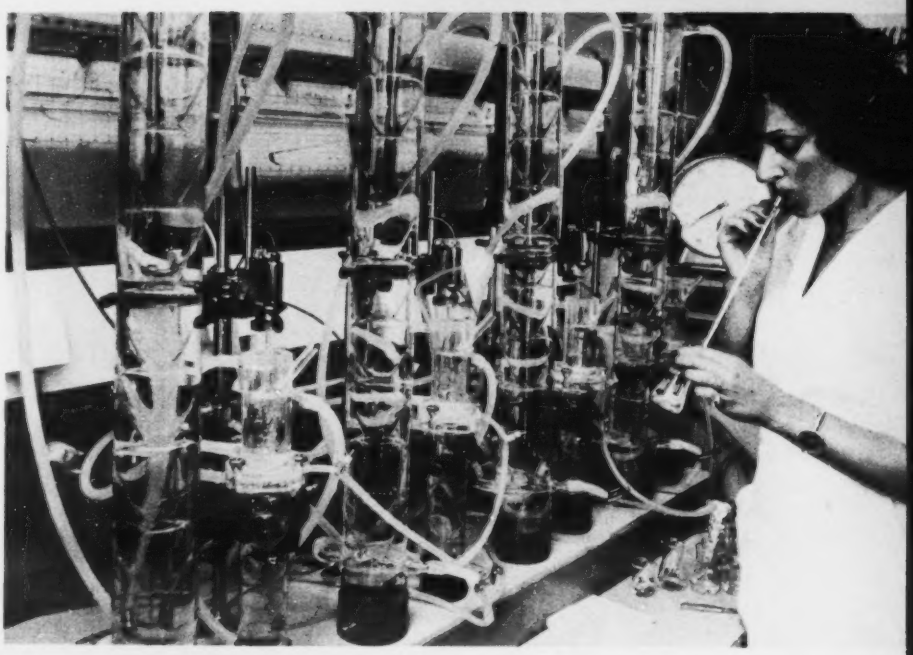
It was once claimed that "the history of the German steel industry is the history of the German economy." A good many Germans hope that statement has lost at least some of its validity today. German steel is in trouble and has been for several years. Burdened by low-cost competition from the Third World, subsidized competition in Europe, and high labor costs, German crude steel output has plunged from a 1974 peak of 53 million tons to 42 million tons last year. German steel producers have also seen a long-term decline in their world market share. In 1913, German steel was the world's second largest, with 23 percent of the global market; by last year, this had shrunk to 5.3 percent. Declining market share and new competition have persuaded Germany's mill owners to reduce crude steel output and concentrate on specialty steels. The Federal Republic's steelmakers are of course not alone in their misery. The 25 percent plunge in German production since 1974 compares with a fall of one-fifth in the United States and 16 percent in Japan during the same time span.

Unlike the American and Japanese industries, which have "merely" experienced a major decline in profits, Germany's steel producers have been awash in losses. Among the moves to halt the bloodletting is the recently announced agreement by Krupp Stahl AG and Estel-Hoesch Werke AG to begin steps to merge their operations. The aim of the marriage would be to gain economies of scale for both Ruhr companies, each of which posted losses equivalent to more than $425 million over the past six years. Size alone, though, will not solve the problem, as was demonstrated by Germany's largest producer, Thyssen AG

which reported a loss of $29 million in the fiscal year ended September 30, 1981. Part of the ultimate solution may lie beyond Germany's borders: reducing the heavy subsidies paid by their governments to the competing Belgian, French and Italian steel industries.







## AUTOMOTIVE

The German automotive industry emerged from a deep global auto recession last year in reasonably sound shape, with output in most categories up slightly over the previous year. However modest the growth rates, they were achieved within a domestic and international environment of weak consumer demand, rising unemployment, and record-high financing costs. Total German production of automobiles and commercial vehicles rose by 0.5 percent. Exports, which were up by 3.5 percent, provided much of the thrust behind this fragile growth. New sales of German and foreign makes in the Federal Republic sagged by 4 percent, but domestic manufacturers were able to whittle away foreign market share from 26.3 percent in 1980 to 25.3 percent.

The automotive industry provided a conspicuous exception to the swelling tide of industrial unemployment in 1981. By the end of the year, the labor force on automotive production lines had actually increased by 2 percent and the number of part-time workers had been halved. German automotive producers invested about DM 7.2 billion last year in new plant and equipment (1980: DM 8.3 billion and will probably lay out over DM 7 billion this year. Earnings were a major disappointment, skidding 60 percent below the level achieved in the "normative" year of 1979. What of the outlook for 1982? At best, the industry will struggle to maintain sales at last year's modest levels, and earnings are unlikely to show any marked improvement.

## CONSTRUCTION

The German construction industry is experiencing the worst times it has known in post-war history. Worse still, the deterioration may continue well into this year. In the first nine months of 1981, building orders were down an inflation-adjusted 17.7 percent below the previous year's level, which in turn had fallen off by 8 percent from 1979. The dimension of the crisis is also illustrated by the mushrooming number of bankruptcies in 1981, about 1,500, which eclipsed the total figures for the protracted construction recession of 1973-1975. The strongest decline in demand and output was registered in those areas where the public sector plays a significant role. These are highway & road building and industrial construction (primarily power supply companies), which account respectively for 100 and 60 percent of all activity. The sharp drop in expenditures by the Federal and local governments stems from several sources. For one, funds are lacking due to a recession-induced falloff in tax revenues. Furthermore, Bonn and municipal authorities are making strenuous efforts to reduce burgeoning budget deficits. Not least of all, the Federal Republic's infrastructure is already well developed and population

growth is slowing, a situation which will serve to depress orders for some years to come.

In housing construction, orders declined by a real 10 percent and output by 8 percent in the first eight months of 1981. Although accelerated depreciation write-offs are expected to provide some stimulus in multi-family housing in 1982, high interest rates will probably limit stimulus in this sector. In sum, with declining-to-weak demand expected from the public and private sectors through the rest of the year, the construction industry will continue to see revenues shrink in 1982.

## CHEMICALS

The German chemical industry has seen a steady erosion in growth rates over the last 20 years. Annual increases of 10 percent in the Sixties fell to 5 percent in the 1970's, and could contract further in this decade. The industry faces major problems which do not lend themselves to quick or easy solutions. Markets for plastics and synthetic fibers remain depressed by oversupply at home and abroad. German chemical producers must also demonstrate over the new decade that their traditionally advanced R&D capabilities are up to the challenge posed by the growing field of biotechnology. Finally, they must deal with the double squeeze of cost pressures in energy and feedstocks. The cost of the latter, for example, exploded by 50 percent in the first nine months of 1981, overshadowing a rise of 8 percent in sales during the same period. As a result, profits were down some 25 percent in January-June 1981 alone. On the other hand, the industry benefited last year from the depreciation of the D-mark and from its strong overseas production capacity: exports and other sales abroad leaped by 14.6 percent while revenues at home rose by only 3.5 percent.

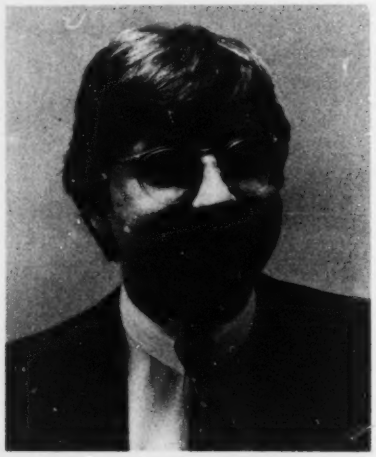
Clearly, the outlook for 1982 will continue to be clouded by unpredictable swings in currency parities, intensified international competition, and uncertain prices for energy and feedstocks. Nevertheless, the industry's entrenched position in overseas markets is likely to provide support at current levels as German chemicals regroup and restructure for the years ahead.

## CONCLUSION

As the foregoing examples demonstrate, there was no necessary correlation between the performance of the economy at large and certain key sectors of the economy. To wit, the disparity may have been as sharp as was the case in construction and steel, or as narrow as in the performance of the automotive and chemical sectors. Although macroeconomic projections for 1982 lean gently toward the positive side, the distance separating the pessimists from the optimists is not very great. The Government's Council of Economic Experts and the independent economic research institutes have estimated the growth of real GNP at only 0.5 and 1.0 percent respectively; the upper limit is put by the Ministry of Economics at 1.5 percent. Within this framework, there is some reason to believe that sector-by-sector results in profits and revenues may diverge somewhat more positively this year than in 1981 from the overall statistics. First, the trend in exports — last year's only real bright spot — is expected to remain buoyant for the rest of the year. Second, now that a full year of depressed sales and high interest rates have led companies to cut their inventories to the bone, some buildup should be in the offing. Finally, the sharp reduction in the current-account deficit and the modest recovery in the mark seem to have induced the authorities to ease their tight monetary policy a bit. Thus, if these factors materialize, many individual sectors could finish the year with somewhat improved sales and profit margins. Certainly, there will be no return to prosperity, but perhaps the beginning of the beginning. ■

# Are Comparisons Between Advertising in Europe and America Really Valid?

**Konrad von Viereck**



Not really. And anyone who has ever worked in the field of advertising on both sides of the Atlantic knows this to be true. That statement would appear to end the story. Not quite. Apart from a few exceptions which relate to the working methods of international agencies and their internal criteria, the only thing that the European and American worlds of advertising have in common is the popular but erroneous misconception that there is no difference between advertising in the Old and New Worlds. This assumption rests either on conscious cynicism or on stupidity married to ignorance. In any case, this bias is derived from the indisputable fact that the United States exercised a powerful influence on European advertising for decades and that New York was its professional navel. The resulting fallacy completely ignores the fundamentally disparate social structures and mentalities here and in Europe, which quite naturally are reflected in the advertising media.

The travel industry is welcome to disagree, but I submit that a visitor to a foreign land would be well advised to turn on the television in his hotel room and study the commercials before venturing out onto the streets. TV commercials as the mirror of a nation? Granted, the statement may be an oversimplification but television commercials do in fact deliver a useful, if superficial, insight into the mentality and conceptual structure of a foreign people. The contrast between an evening of TV in New York and Frankfurt (here it would be a short one) comes to mind. The two cities are not merely separated by eight and one-half hours flight time but by 300 years of different historical development, which simply cannot be bridged — even in an era of technical and communication superlatives.

Though hordes of social scientists from a cross section of disciplines study these developments on both sides of the Atlantic, some advertising executives continue to insist on treating the European and American consumer as birds of a feather and to regard their needs and preferences as identical. This despite the fact that all previous efforts to adapt a successful advertising campaign from one side of the Atlantic to the other have failed. Even if there have been exceptions to this rule, a closer examination will demonstrate that they do not really negate the principle of non-transferability.

In contrast to many multi-national advertising agencies, SSC&B LINTAS Worldwide has alligned its organization according to this perception: strategic and creative output are tailored to cultural characteristics and circumstances of each individual country. So-called international campaigns, too, must be filtered through this qualitative sieve in order to assure successful results.

All the same, any comparison of marketing and advertising in Europe and the United States is academic by virtue of the fact that there is no such creature as a European or American market. This may be intuitively obvious as it applies to Europe. Indeed, it is anything but difficult to convince an American executive that a successful advertising concept for his product must, for example, be quite different in France than in Germany. While this also applies to the U.S., the reasons are less clear to many Europeans. In order to set this problem into finer relief, I would propose to translate the United States into rough geographical terms that are understandable to Europeans. San Francisco, for instance, would correspond to Lisbon, the U.S.-Canadian border would run diagonally through Germany and Czechoslovakia. The Caucasus Mountains would approximate the New England states, New York would have its counterpart in Ankara, Miami on the banks of the Nile in the Sudan, and

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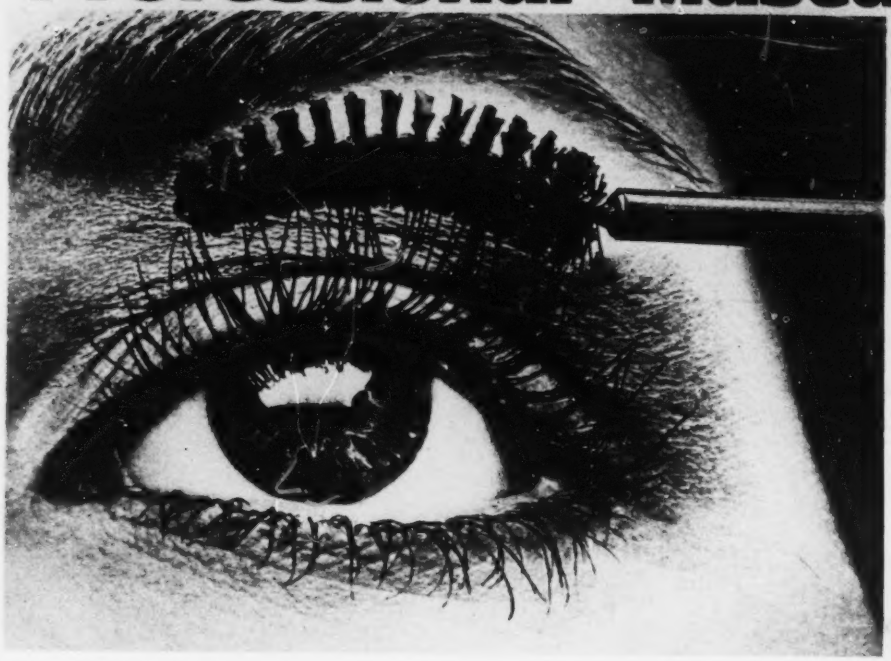
*Mr. von Viereck is just completing a tour of duty as account director in SSC&B LINTAS Worldwide's U.S. office, SSC&B: New York. He will be returning this fall to the firm's Hamburg subsidiary.*

Cover Girls asked for it!
'Professional Mascara'



Created to give you the application, the look, the performance professional models demand!

Never before a mascara like this! Professional, all the way. From the rich, fiber-free formula, to the unique "curl-brush"—a system designed to give you the kind of lashes cover girls must have. Each lash defined. Separated. Lengthened. Curved. Darkened—from root to tip—with a clean sweep of deep, smudge-resistant color. Color that really lasts. Get it now!
The first mascara designed for professional models.

New!
Cover Girl
'Professional Mascara'

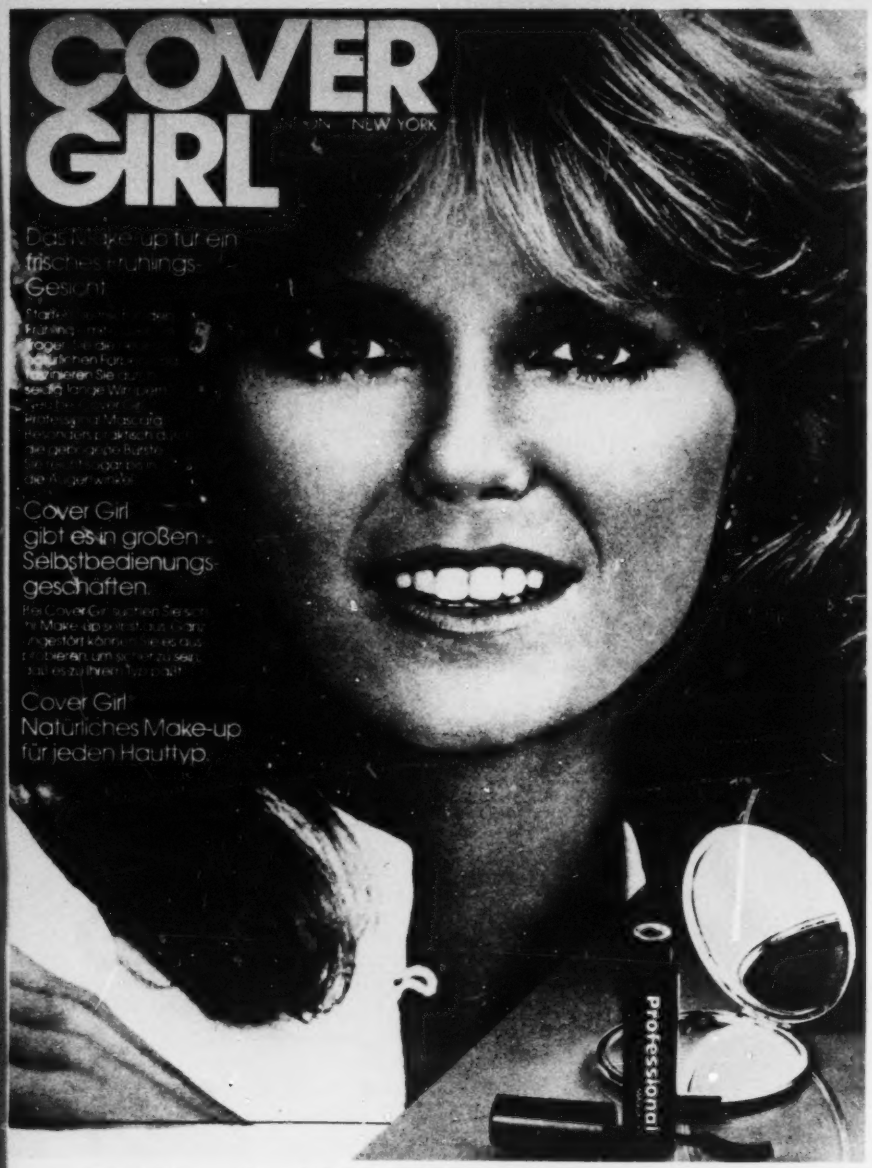
Texas would lie somewhere in the Sahara. Carrying this physical transposition to its conclusion, the center would be occupied, not by the Mediterranean basin, but by the diverse American population, all 220 million of them, black, white and yellow, variously concentrated in densely populated metropolitan areas or in the semi-rural expanse of Middle America. The contrasts in population density alone are scarcely conceivable in European dimensions.

The physical extremes and the diverse demography of a gigantic continent, in and of themselves, exclude the very concept of a *single* American market. In the same sense, but for differing reasons, that there is no *single* European market. At first glance, this statement may seem simplistic, but any observer of the American advertising scene is bound to be fascinated by the fact that many American corporate giants, such as General Motors, Procter & Gamble and Coca Cola, successfully use the same TV commercials from coast to coast. By contrast, these same companies refine and develop entirely distinct advertising campaigns — quite apart from language barriers — for France, Germany or Scandinavia. This example, it seems to me, represents a graphic illustration of the difference in advertising in the United States and Europe, particularly with regard to cause and effect.

First, let me make a basic observation: I think I am on safe ground in stating that advertising in the United States, in comparison with Europe, occupies a higher and more significant position in the scale of social values. The communicative functions of advertising seem to be more accepted in broad circles of the American population than in Europe. To be sure, the debate in Europe on the pros and cons of advertising has become somewhat less shrill in the last few years, but advertising as such is still viewed with much stronger scepticism than in the U.S. As a result, among others, the economy at large, as well as corporate advertisers in the United States allocate a higher priority to advertising in their marketing mix. Even though somewhat dated, figures from 1976 clearly support this point. Advertising outlays for that year in Germany — the world's third largest advertising market — came to $2.99 billion, which represented 0.68 percent of the gross national product. For that same year advertising expenditures in the United States amounted to 1.98 percent of the U.S. GNP. On a relative basis, then, American companies spent almost three times as much on advertising as their German counterparts. In absolute terms, U.S. advertising revenues, at $33.7 billion, were 11 times higher than in Germany. Despite somewhat divergent twists and turns in the two economies, this ratio pretty much persists to this day.

In this connection, I submit another observation. While a career in law or on Wall Street represents the most desirable avenue to financial and social success for an ambitious young American, the alternative path to success via Madison Avenue also enjoys a claim to status. Many a European advertising executive would gladly exchange his somewhat problematic position with the prestige and status of his American counterparts in a blue chip Madison Avenue ad agency.

Back to the American commercial message which, in distinction to Europe,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NEW YORK
Das Make-up für ein frisches Frühlings-Gesicht
Cover Girl gibt es in großen Selbstbedienungsgeschäften.
Cover Girl Natürliches Make-up für jeden Hauttyp.
Professional

must wind its way through the media and market labyrinth prevailing in the United States. If the campaign is to assert itself within the total environment as well as against the seemingly overwhelming competition, it must have a "spine." Within this context, it is absolutely fundamental to concentrate on the essential. At this point, the core significance of advertising strategy assumes fundamental importance. American strategies focus mainly on the product being advertised; embellishments are secondary, esthetics superfluous. The real world in which the product must prevail is translated into generally comprehensible and accepted terms. For instance, one doesn't drink Pepsi just any time but, say, after winning a tennis or football match, an event with which most potential consumers can or would like to identify. This effort to directly influence consumer preferences via space ads and television commercials in the United States would be unlikely to yield results in Europe. Jerry Della Femina, one of America's advertising gurus, put it this way: In Europe, a one-minute commercial will deal for 58 seconds with the milieu of the product and the life style of the target group, and only 2 seconds with the product itself; the ratio would be reversed in this country. Femina's generalization is a bit sweeping, to be sure, but it is essentially accurate.

It is the purpose of every commercial to emphasize to the extent possible the product and its unique features. This is not to say that Madison Avenue ignores milieu and the particular idiosyncrasies of the target group, but that, at least by European standards, they could receive much closer attention. Above and beyond this distinction in emphasis, the media structures in the United States and Europe themselves represent the most fundamental and perceptible distinction between advertising in the Old and the New World. Concepts such as network and spot TV, day time and prime time are unknown in Europe, while press runs of the magnitude of publications such as TV Guide, Readers Digest or Cosmopolitan are simply inconceivable. By European standards, the variety of media available to American advertisers is immense. American executives cannot believe their ears when their Europe agencies complain about the total inadequacy of television advertising time, not to mention selection. Again, let me refer to Germany, which, as I have already pointed out, is the world's largest advertising market after the United States and Japan. German television carries only 40 minutes of advertising a day, between 6 and 8 PM, and none at all on Sundays and holidays. As a result, TV advertising represents only 11 percent of total agency billings in the Federal Republic. The situation is somewhat more favorable in other countries in Europe, particularly in England, but is in no way comparable with the U.S. This frustration is compounded by the fact that European advertising executives can anticipate only in some far distant future the joy of access to the new mediums of cable and satellite TV or other new technologies in the world of video. The basic roads have been laid out at this point, even if some political leaders in Europe continue to resist. However, television advertising is still a small business in Europe. And indeed, the European becomes a bit uneasy when he hears that the average American household watches television seven hours a day. It is significant that per capita outlays for magazine and newspaper advertising in Germany are about the same as per capita spending for TV advertising in the United States: some 77 percent of advertising spending in Germany goes to newspapers and consumer magazines. Thus, in Germany and the other nations of the Continent, the print media play a far more important role than in the U.S. What is even more important, this difference in emphasis between the two media itself defines different principles and approaches.

But, back to the first evening in front of the television set in the hotel room in New York. The European visitor, exhausted from seven hours of watching television, some 90 minutes of which were devoted to commercials, turns off his set. At long last, he will have detected at least one parallel between advertising on the two continents. Namely that here, as well as in Europe, there are good as well as bad commercials. But, as I said at the beginning, the comparisons are really academic. ■

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# Siemens and the Uneasy Path to Growth in the U.S.

**Werner F. Zieler**

When I was asked to speak to you tonight about some entrepreneurial aspects of Siemens Corporation, I remembered an article on Siemens some years ago, which said that "it's hardly an original idea for foreign companies to get ambitions about the U.S. market." So I said to myself that maybe it's hardly an original idea to speak about it. If I do so today, it is because I am certain that there is something of interest to you in the story of Siemens in the U.S., of a company which behind GE, IBM, ITT and Philips holds rank No. 5 among the leading electrical/electronic companies in the world, but has a market share in the United States of not even one percent; of a company which booked a worldwide business volume last year of $18.7 billion, of which not even 5% was transacted in the U.S. market, which accounts for almost 30% of the world market in electrical and electronic goods; of a company which has strongly contributed over 134 years of its history towards the progress of electrical engineering, and which at the same time is hardly known to the general public in the United States.

### Why is this so?

The answer could be that Siemens — similar to the giants of the American industry — concentrated its business efforts on its own domestic market, and that the lion's share of goods and services sold by Siemens was sold in its German home market. Far from that! Siemens has always been a multinational company, long before this term was coined. Within ten years after its establishment in Berlin in 1847, Siemens already had sales offices in Great Britain, Russia and Austria to which factories were added within a few years in the 1860's. Siemens booked a first order from the United Statse as early as 1854, (incidentally, for a telegraph line which originated from this city: Philadelphia, Pennsylvania). In 1870, Siemens made headlines in the world press with the inauguration of the Anglo-Indian telegraph line connecting London with Calcutta, which was laid across central Europe and through Russia, the Black Sea, Persia, Afghanistan and India over a distance of 6000 miles in a matter of three years. In 1874, Siemens carried headlines in the United States for having successfully laid a transatlantic telegraph cable, which, instead of going through Newfoundland, connected the U.S. for the first time directly with the European continent. Siemens has always been active internationally, and has over many decades in the second half of the 19th century, and again over the last 10 or 15 years, conducted more business abroad than in its home country.

Siemens always *had* to be international or transnational or multinational, whichever word you prefer. Funding research and development to the desired extent required, and requires, a critical mass of business volume for which the German home market has never been big

---

*Mr. Zieler is President, Siemens Corporation, Iselin, New Jersey. This address was delivered before the Wharton Entrepreneurial Center's executive dinner in November 1981.*

*Headquarters, Data Group, Siemens AG in Munich.*

enough. In the fiscal year which ended seven weeks ago, on Sept. 30, 1981, Siemens exported 40% of its German production and booked 56% of its $18 billion business outside Germany. (Please compare with GE which exported 17% of its U.S. production and had 38% foreign business.)

The majority of foreign business (60%) is done in industrialized countries, of which again two-thirds is European; 40% of foreign business comes from developing countries. As a general rule, one can say that, with the exception of industrialized East Block countries and oil countries, there is a direct relation between business volume and investment. I could have also said between investment and business volume, but in actual fact in the normal order of events, trade comes first, and investment follows trade.

Once a market is formed and developed, there comes a point in time when further market penetration is not feasible without first establishing responsive sales services in the form of workshops, and then manufacturing facilities. Customers expect a major supplier to be well established in his own country. To be an offshore supplier is a stigma. If customers are government agencies, considerations of national interests come into play in addition, particularly in countries where the creation of job opportunities is of importance. This applies not only to developing countries or the Third World. We find it in Great Britain and the United States as much as in India and Indonesia. In short, an offshore supplier quickly realizes his limitations of growth. Investment has to follow trade, if one wishes to stay in a market and to grow with it.

There is also a reverse consideration. If a factory exports an important part of its production to a certain foreign market, and prices from this foreign market erode for reasons of fluctuation in currency rates, one cannot suddenly discontinue supplies without negative impact on capacity utilization and profitability at home. In other words, for a multinational corporation it is advisable to look for a balance of trade in its own business with important markets or currency areas.

This leads to a rather unexpected strategic consideration, which is surprising in its contrast to the many accusations against multinational corporations. A multinational corporation has many reasons of its own, for the strength of its operations and for the minimization of risks, to treat foreign countries with their economies not just as sales markets but as integral parts of a worldwide network of correlated business activities. Contrary to all allegations by leftist groups, a multinational company is not inherently a danger to the various countries of its operations, but by nature of its own success-oriented strategies a useful citizen of all societies and economies in which it conducts its business.

### External complexities

With these remarks, I have sketched some basic considerations which have made Siemens into a world organization:
— a small home market, and a strategy of investment following trade. This sounds like a simple and straight-forward entrepreneurial action plan. In reality, we know that life is more complex and is shaped, not only by the selection of proper methods, not only by decisions, but equally by chance and by accident. In the international arena, business chances are determined by a number of external factors, like the acceptability of products in various markets, and also by political events.

With the first, I refer mainly to different industrial standards and consumer habits, as for example a single phase voltage of 220 volts at 50 cycles in the greater parts of Europe versus 120 volts at 60 cycles in countries like the U.S. To exchange goods between markets with different standards requires special product development or at least product adaptation, and is therefore not easy, even with superior equipment.

By political factors, I mean influences like the two World Wars, through which Siemens lost its world possessions twice. After World War II, Siemens losses inside and outside Germany amounted to ten times its equity. Over the last 60 years, Siemens had to re-enter the world market twice with restricted financial resources.

We consequently always went back to where we had been before, mainly in Europe, and expanded overseas markets wherever we could do so with little financial engagement. This excluded the United States. For a long time after World War II, we rightly felt that we were not strong enough to go into the U.S., and compete with the U.S. industry in their home market, at least not without heavy investment. Competition in the U.S. appeared too powerful. Mass production in the U.S. on the basis of the sheer immensity of the American home market permitted cost levels which we could not match. We also had to accept it as a fact of life that during the war years and the post war period we had not been in a position to keep abreast of technological developments as they originated, mainly from the U.S. market.

Exactly for these reasons, which prohibited a business entry into the U.S. market, the need to stay in touch with the U.S. market and technology was recognized. A liaison office in New York City was established which was primarily conceived as an information exchange center, and a contact office with the U.S. financial world. Almost accidentally, it developed into a steady and fast growing

marketing beachhead for certain types of special products (electronic microscopes, electronic components, X-ray equipment). Soon we reached the poir where it was apparent that the situation required a serious reappraisal. If we wanted to stay in the market, we had to grow with the market, but further growth, for the reasons explained before, required factory support.

Indications of a lowering growth rate in Europe and increasing realization of instabilities in a number of overseas markets, particularly in developing countries, alerted us to look for new markets with a promise of long-term stability and growth.

In the U.S., the availability of venture capital, the ease of obtaining credit, the freedom to pursue profit, an excellent education system, all nurture a dynamic, creative economy characterized by rapid innovation.

In many areas of high technology, the U.S. had become the unquestionable leader. Although dozens of licensing agreements had been contracted with American firms, we recognized that a far more satisfactory method to keep abreast of modern advances in technology would be by active participation in the U.S. through local manufacture and product development.

The decision to move strongly into the U.S. economy by investment in people, companies, and facilities was inevitable.

It was obvious that a strong position in the United States required a philosophy in which the principle of "investment follows trade" formed only a part. The U.S. is more than just another market. We had to adopt a variety of different investment strategies. How did we go about it?

For our individual investment steps, we had to be very selective. We had to have a marketing concept in respect to each and every product we wanted to manufacture in this country. Capacities for product development and manufacturing were not to disturb existing production in other parts of the world. They should rather open new markets, or tap resources which would otherwise be inaccessible. Products which were developed or adapted in this country either had to find a sufficiently large market in the U.S., or they had to be compatible with similar Siemens products manufactured in other countries, particularly if they were to be used in systems worldwide. In short, apart from financial considerations, our individual steps were based mainly on product or technology oriented factors, and not so much on a general master plan.

## Siemens Corporation**

| October 1 to September 30 | 1980/81 | 1979/80 |
|---|---|---|
| Orders* | 836 | 639 |
| Sales* | 784 | 587 |
| Employees | 10,000 | 11,300 |

** In millions of U.S. dollars*

*** The difference in comparative figures for Siemens Corporation is partly attributable to the fact that figures for 1979/80 do not include fully the activities of companies acquired that year.*

## Siemens Worldwide

| October 1 to September 30 | 1980/81 | 1979/80 |
|---|---|---|
| Orders* | 17.9 | 15.2 |
| Sales* | 15.0 | 13.8 |
| Employees | 338,000 | 344,000 |

** In billions of U.S. dollars (U.S. $1 = DM 2.32)*

### Developing marketing concepts

For better demonstration, let me give you some examples of how we proceeded in this selection process.

I have already mentioned that it is difficult, if not impossible, to sell German power equipment to the U.S., even with superior designs. European industry had by tradition developed a consciousness for scarcity of raw material and energy and has therefore paid more attention to material and energy conservation in the design of their products. To introduce such designs into the U.S. required a partner who was interested in such advanced designs; and ready to adapt them for U.S. market standards.

In 1970, Siemens licensed to Allis-Chalmers Corporation selected portions of its power engineering technology. Through a number of additional agreements, relations with Allis-Chalmers became closer and led the two companies to form two major joint ventures. The more important of the two, Siemens-Allis, Inc., was formed on January 1, 1978.

In the field of electronic equipment, we acquired Computest Corporation in 1973. This acquisition provided manufacturing facilities, a pool of technical experts, and specialized know-how in certain areas of sophisticated electronic techniques. It tapped U.S. talents and formed the nucleus of a product development center for telephone and telex systems which at present employs 660 people in Cherry Hill, N.J. and Boca Raton, Florida. With another 330 people, it produces PABX equipment, which was developed by our development center, and which is being marketed successfully in the U.S. and in a number of foreign countries.

In the medical field, we acquired a small company which develops and manufactures linear accelerators for use in cancer therapy. It is the product center for this type of equipment within Siemens and has world product responsibility. The same applies to a factory in Chicago which we acquired in 1980, and which develops and manufactures medical diagnostic equipment.

Let me finally mention a joint venture with Corning Glass Works in which the Siemens expertise in cable manufacturing and communication systems has been joined with the skill of Corning Glass in producing high quality optical fibers. The joint venture enjoys the highest reputation in the market as a leader in the advanced and quickly developing glass fiber technology for the communications industry.

I have mentioned only a few cases of dedicated Siemens investments in the

*Expansion of Siemens Corporation's existing U.S. headquarters facility in Iselin, New Jersey.*

U.S.. You can see that our efforts in the U.S. are selective, the outgrowth of specific needs or plans on the part of different product strategies.

### Steady growth

The growth of our involvement in the U.S. has been substantial. Ten years ago (September 30, 1971), we had no factory, sales of $46 million, and 681 employees. As of September 1981, we had a sales volume of $790 million, 18 factories and 10,100 employees. In addition, we were 50% partners in a number of joint ventures with an additional sales volume of $550 million and 6,200 people.

At this point, let me say a few words about our experience in our U.S. engagement.

From the political, regulatory, and legal point of view, the U.S. has been an extremely reasonable place to do business. Our faith in the economic potential of the U.S., since our decision to invest, has not diminished. Foreign investors are welcomed by local authorities. We have found a spirit of genuine free enterprise with little national chauvinism as in many other overseas countries. We have found no discriminating laws or barriers.

Although the climate is fair, let me assure you, we do not enjoy life in a bed of roses, and I agree with that article on Siemens which I mentioned before, that "for delivering discipline — and punishment — there is no market like the U.S."

There is no doubt that competition is very rough in the U.S.

We have also seen that there is no automatic assurance that products accepted in Germany will be accepted in the U.S. Frequently, very different buying habits or criteria for buying exist.

Furthermore, the practice of industrial relations is quite different here.

Finally, our growing activity in the United States and the complexities of our business in this country have forced us to focus on a problem which is observed in all international relations by all multinational companies, but which grows in importance with the size and the importance of foreign organization. I refer to the eternal problem of management structure, definition and delegation of power, and personnel. A complex world organization must be tuned to a centralized authority and control, without which the organization would disintegrate and end its life as one organization.

At the same time, a complex world organization can only function successfully with a lot of delegated or decentralized powers. Operating across national boundaries presents a whole array of specific needs: rules for importation, tax considerations, pricing strategies, best sources of supply, evaluation of political stability, judgements regarding monetary valuations, labor attitudes. Such matters require, besides local sensitivity, decisions and actions in concert with other parts of the organization, and specifically a well-working system of communication and inter-action between the world headquarters and its foreign subsidiaries.

To strike the right balance of power between the two is a continuous process of adjustments; and a continuous learning process for all parties involved.

In terms of the organizational structure, there must be an interface system between the matrix organization of the mother with the matrix organizations of the daughters. Various forms and degrees of multidimensional matrices combining the headquarters matrix with the regional matrix have been the route of solutions. These developments have often made it even less clear — Who is in charge? — How do you get things done? — Who is to be held responsible?

The answer can be found only partially in the selection of the right type of organization, and in the appropriate description of powers. The factor which decides over success or failure is the human element. With this remark, I do not relate to the general problem of human relations as a part of business operations, but to the

problem which I call "the entrepreneur in a multinational company."

### Decentralizing and delegating

I have mentioned that in the U.S. we have engaged in businesses of certain products which we did not have within Siemens before, and for which the U.S. divisions carry a world product responsibility. It means that they are responsible for the product strategies th ghout the world covering product development, manufacture and marketing.

This is a novelty in our world organization. Over more than one hundred years, such responsibilities were centered in product departments in Germany, in the top management of Siemens AG in Berlin or Munich. Today, we are confronted with the question whether a product center located in the United States is primarily a part of our U.S. organization and only then a part of the greater mother in Germany, or whether, on the strength of its global importance, it is a direct branch of Siemens AG outside our U.S. organization, reporting directly to the board in Germany. Such questions may sound academic. They are, however, of basic importance in the execution of product concepts, i.e., whether products and marketing strategies are defined and carried out by an American or by a German-based and -oriented organization.

If you want to tackle a market with an American product, better do it from within an organization which is U.S. oriented. If, however, some specific U.S. know-how is needed as a contribution towards a product strategy which is mainly directed to the German or European market, it is possibly better to do it by a team of people in the U.S. who report directly to their German partners. The important point is that such operations must be conducted free from ambiguities, and this is exactly the difficulty.

In all respects, it requires a new pattern of thinking: decentralized and flexible. Management and even administrative procedures in the broader sense must be suited to encourage a spirit of entrepreneurial independence for important parts of the U.S. organization. Too much of a direct control from Germany stifles incentive, curtails flexibility, and delays or prevents decisions.

In short, through its U.S. experience, Siemens learns more than ever before to delegate authority to a foreign country, to accept foreign talents as being equal or even superior, to entrust them with strategically important operations, and in general to foster a truly international entrepreneurial spirit in a multinational corporation.

You will certainly agree with me that this is not an easy task. Factors integral to large companies, the need for coordination, job definitions and descriptions of powers, firm sets of rules and regulations, as well as endless controls, lead to slow responsiveness and risk avoidance. They can suppress, or even eliminate the entrepreneur. It is one of the most important duties of management to create conditions in its organization which attract entrepreneurs and which develop their skills. Diplomacy, sensitivity to the needs of other parts of the organization, ability to communicate loyalty and confidence to act on instructions of a higher order, must not end in submissiveness and lack of initiative. Resourcefulness of the visionary with the qualities to innovate, and with the courage to change, have a place in well-run organizations of any size.

Within Siemens, it has been a policy of a long tradition to expose managers to a wide variety of situations, both functionally and geographically. It is our strength to offer a great number of possibilities to the specific talents and ambitions of an individual. If we had not been able to produce managers who arrange themselves with discipline in a network of inter-relations, but also maintain the strength of their respective talents and abilities, including creativity and innovation, neither Siemens nor any other world organization would have survived.

The business in the United States, and the growing size of our organization in this country have increased our awareness of the importance of this human factor. And meeting you tonight, ladies and gentlemen of the Wharton Entrepreneurial Center, gives me the reassurance that our efforts to develop and maintain entrepreneurial skills even in large organizations, across international boundaries, is of recognized importance. It should also give *you* the assurance that the objectives of your work are supported and shared not only by small businessmen and businesswomen, but by the larger world organizations on whom so much depends in our world of international interdependence. ■


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# German-American Economic Review in Figures

| | Federal Republic of Germany | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1981 | | | 1980 | 1981 | 1981 | | |
| | | | Aug. | Sept. | Oct. | | | Aug. | Sept. | Oct. |
| **FOREIGN TRADE** (in mil. $) | | | | | | | | | | |
| Imports | 187,933 | 163,894 | 11,274 | 13,118 | 14,383 | 241,461 | 261,305 | 23,499 | 21,195 | 23,499 |
| Exports | 192,901 | 176,070 | 11,252 | 14,596 | 16,755 | 220,684 | 233,677 | 19,050 | 19,655 | 19,050 |
| Balance on merchandise trade | 4,968 | 12,176 | –22 | 1,478 | 2,372 | –20,838 | –27,628 | –5,499 | –1,540 | –4,499 |
| **U.S.-GERMAN TRADE** (in mil. $) | | | | | | | | | | |
| U.S. imports from Germany | 11,821 | 11,501 | 714 | 966 | 1,213 | 11,681 | 11,379 | 988 | 789 | 973 |
| (+)(–)% from previous year | 4.3 | –2.7 | 7.9 | 8.1 | 19.6 | 6.6 | –2.6 | 5.9 | –6.6 | 12.9 |
| U.S. exports to Germany | 14,156 | 12,610 | 883 | 8996 | 1,159 | 10,732 | 10,075 | 751 | 874 | 887 |
| (+)(–)% from previous year | 27.8 | –10.9 | –11.3 | –13.5 | –2.3 | 29.7 | –6.1 | –4.9 | –9.1 | 4.2 |
| Balance on U.S.-German trade | –2,340 | –1,109 | –169 | 67 | 54 | –949 | –1,304 | –237 | 85 | –86 |
| **INDUSTRIAL PRODUCTION** | | | | | | | | | | |
| (+)(–)% from previous year | –0.4 | — | –0.8 | 0.9 | 0.8 | –3.6 | 2.7 | 8.0 | 5.0 | 1.8 |
| Iron and steel | –3.3 | — | –8.0 | 0.9 | 0.6 | –18.9 | — | 39.6 | 24.3 | –1.6 |
| Machines, exc. elec. | 3.4 | — | 0.5 | –1.9 | 1.1 | –0.7 | 5.0 | 11.1 | 9.3 | 5.6 |
| Electrical machinery and equipment | 3.2 | — | 0.8 | 2.9 | –1.7 | –1.3 | 3.2 | 9.5 | 7.5 | 5.6 |
| Chemicals | –4.0 | — | 4.8 | 5.7 | 5.2 | –2.4 | — | 10.8 | 4.6 | 0.3 |
| Road motor vehicles | –4.6 | — | 9.6 | 8.9 | 12.8 | –25.7 | 2.7 | 17.9 | 6.2 | –8.4 |
| Textiles | –0.9 | — | –12.0 | –9.4 | –7.0 | –5.7 | — | 4.4 | 2.3 | –0.5 |
| Apparel | –5.1 | — | –8.9 | –7.4 | –4.2 | –4.4 | — | –1.0 | –3.3 | –7.1 |
| **LABOR MARKET** | | | | | | | | | | |
| Population (in mil.) | 61.7 | 61.7 | — | — | — | 227.7 | | 230.0 | 230.3 | 230.5 |
| Civilian labor force (in 1000) | 25,795 | | 25,592 | | | 104,719 | 106,393 | 106,602 | 106,236 | 106,736 |
| Unemployed (in 1000) | 889 | 1,272 | 1,289 | 1,256 | 1,366 | 7,448 | 8,080 | 7,657 | 7,966 | 8,520 |
| Unemployment rate (in %) | 3.8 | 5.5 | 5.5 | 5.4 | 5.9 | 7.1 | 7.6 | 7.2 | 7.5 | 8.0 |
| Gross hourly wages in manufacturing (in DM or $) | 13.41 | — | — | — | — | 7.27 | 7.99 | 8.08 | 8.14 | 8.15 |
| (+)(–)% from previous year | 6.9 | — | — | — | — | 10.9 | 9.9 | 9.8 | 9.7 | 8.7 |
| **PRICES** (+)(–)% from previous year | | | | | | | | | | |
| Consumer Price Index | 5.5 | 5.9 | 6.0 | 6.5 | 6.7 | 13.5 | 10.4 | 10.9 | 11.0 | 10.2 |
| Producer prices for ind. products | 7.5 | 7.8 | 8.8 | 8.9 | 8.7 | 16.1 | — | 10.4 | 10.2 | 9.5 |
| **CURRENCY EXCHANGE RATES** (avg.) | | | | | | | | | | |
| Value of $1.00 in DM | 1.8158 | 2.2610 | 2.5010 | 2.3573 | 2.2522 | | | | | |
| Value of DM 1.00 in $ | | | | | | 0.5509 | 0.4436 | 0.3999 | 0.4254 | 0.4437 |

| | 1980 | 1981 | 1981 | | | | 1980 | 1981 | 1981 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | I | II | III | IV | | | I | II | III | IV |
| **NATIONAL ACCOUNTS** | | | | | | | | | | | | |
| Gross National Product at current prices (in bil. DM or $) | 1,497 | 1,549 | 1,431 | 1,512 | 1,578 | | 2,623 | 2,922 | 2,853 | 2,886 | 2,947 | 2,985 |
| (+)(–)% from previous year, real terms | 1.8 | –0.3 | –2.0 | –0.7 | –1.5 | | –0.2 | –1.9 | 1.0 | 3.2 | 2.5 | 0.7 |
| Balance on current account (in mil. DM or $) | –29,832 | –17,795 | –9,138 | –5,339 | –12,278 | 8,960 | 3,723 | — | 3,263 | 1,073 | — | — |
| Monetary reserves (in mil. $) | 53,141 | 49,925 | 56,614 | 54,374 | 53,049 | 49,925 | 126,760 | 30,070 | 30,410 | 29,580 | 29,710 | 30,070 |
| Direct investment, cumulative at period end (in mil. DM or $) | | | | | | | | | | | | |
| Direct investment abroad | 74,162 | — | — | 78,471 | — | — | 213,468 | — | — | — | — | — |
| — German investment in the U.S. | 15,664 | — | — | 16,821 | — | | | | | | | |
| — U.S. investment in Germany | | | | | | | 15,393 | — | — | — | — | — |
| Foreign direct investment | 57,616 | — | — | 59,469 | — | — | 65,483 | — | — | — | — | — |
| — U.S. investment in Germany | 20,312 | — | — | 20,582 | — | — | | | | | | |
| — German investment in the U.S. | | | | | | | 5,290 | — | — | — | — | — |

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
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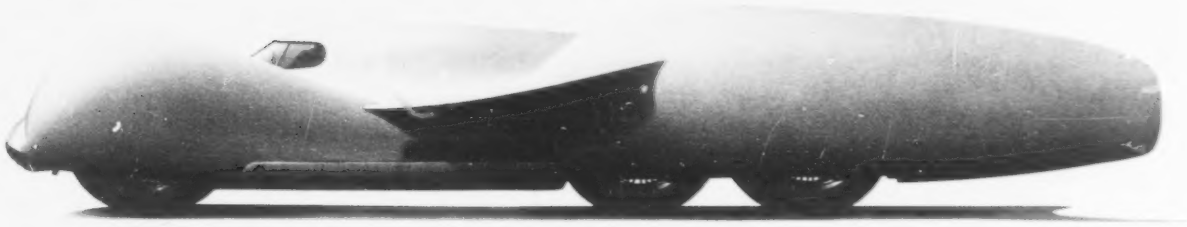

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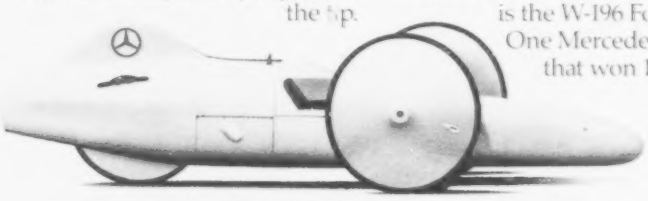

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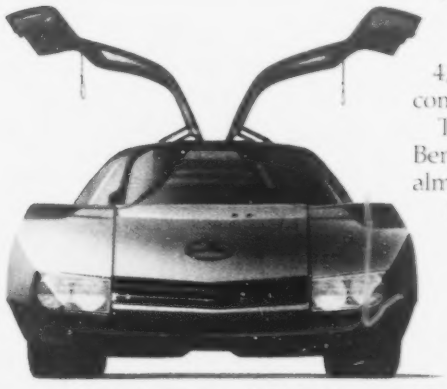
The machine shown at right is the W-196 Formula One Mercedes-Benz that won 10 out of 13 Grand Prix contests in 1954 and 1955 before retiring as world champion, having more than made its point. It was the last of a glittering lineage.



**C-111/3 Research Vehicle**

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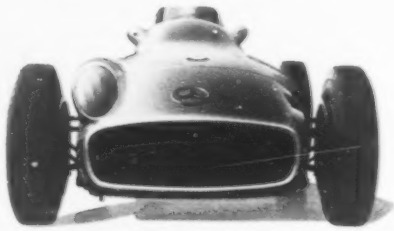
The C-111/3 (left), a Mercedes-Benz research vehicle, ran at almost 200 mph for 12 hours in 1978–powered by a five-cylinder turbocharged diesel engine basically the same as that now fitted to the 300 SD, 300 TD, 300 CD and 300 D passenger cars.

Mercedes-Benz apprentices built the ultralightweight diesel "Economobile" at left, and in 1979 set a world fuel economy record by running it over a measured Swiss course at a rate of 3,020 miles per gallon.



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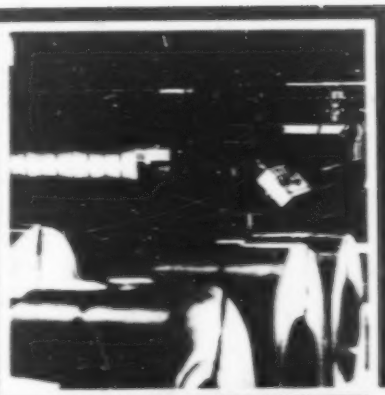

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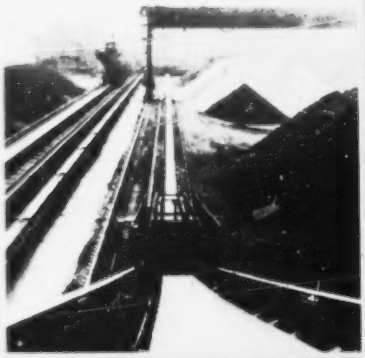

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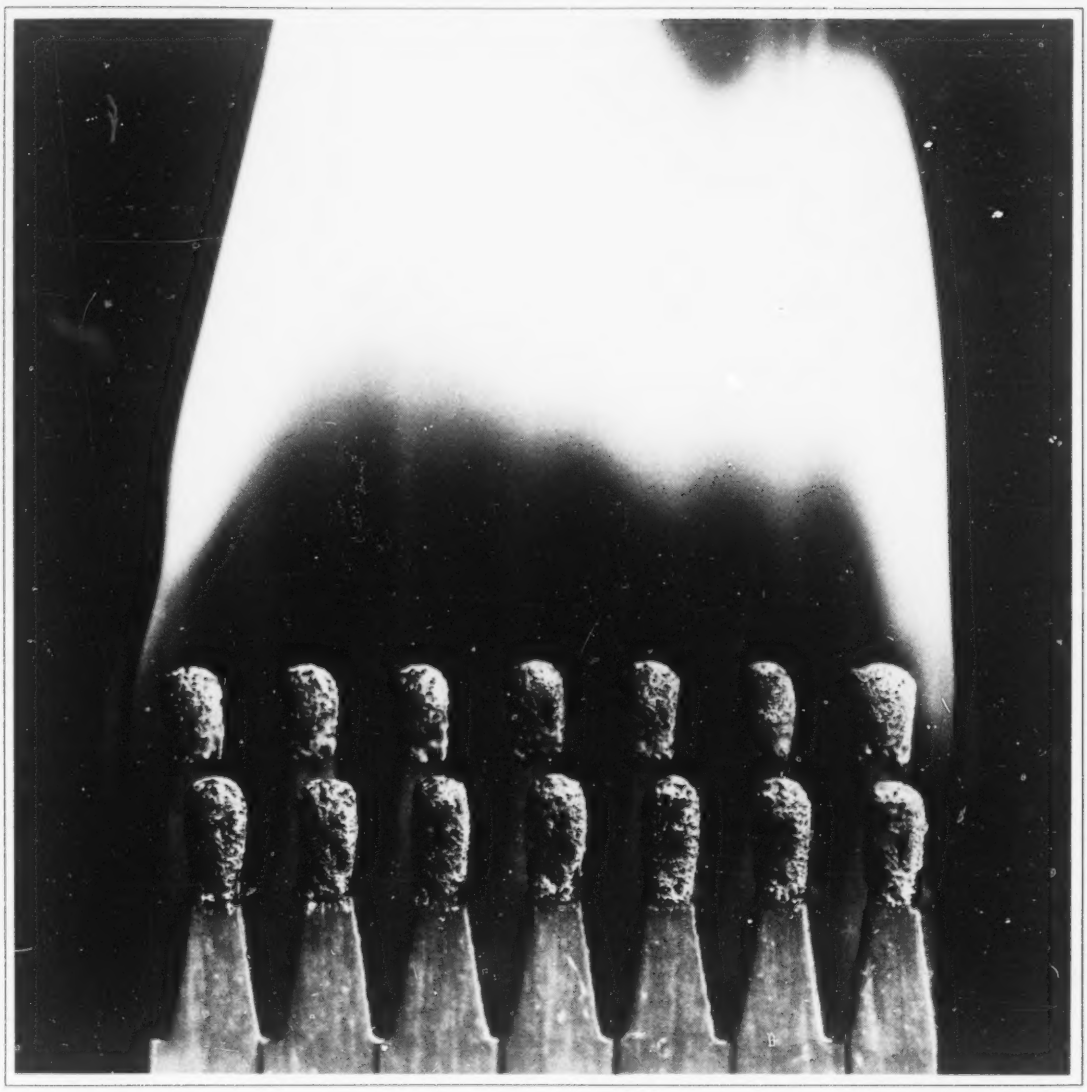

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VOL. 36 NO. 2 MARCH/APRIL

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# Chamber Commentary

## A tarnished anniversary

The European Community celebrated its 25th anniversary in March. Sad to say, there was no dancing in the streets, not even an ambitious commemoration. Ironically and perhaps symbolically, the anniversary was marked by a summit meeting in Brussels where the leaders of the 10-nation Community were able to agree on only one issue on their long agenda: namely, that high interest rates in the United States were spreading recession and unemployment in Europe.

Earlier, the Common Market Commission had presented the Summit with a somber economic forecast. It predicted that Europe's economies would grow by only 1.6 percent this year, in contrast to previous expectations of a 2.5 percent expansion. As a result, unemployment is likely to rise 15 percent this year, the ninth such consecutive increase, which would bring joblessness to 12 million, or more than 9 percent of the European Community's total labor force.

A suggestion that the countries increase public investment spending and a plea by the smaller countries for more expansionary policies were rejected. Chancellor Schmidt said that budget deficits and wage levels were already too high, and suggested that the best solution for unemployment would be for individual governments "to put their houses in order".

The appearance of disarray and indecision in Brussels should not be allowed to mar the great achievements of the last 25 years. Among others, the Community of Ten now accounts for one-third of global exports as opposed to only 21 percent in 1957, and it represents 22 percent of total world output. On the other hand, it is just a bit too facile for Europe's leadership to lay their economic problems neatly at the door of high American interest rates. Europe's unemployment problem began and continued to expand steadily in an environment of much lower rates in the Seventies. Rather, it might be more appropriate, as a starter, to ask whether Europeans may be paying themselves too much for too little work. That same question has been asked in the United States, and several American trade unions have essentially answered in the affirmative.

It now remains to forge, in some form or fashion, a common position to present at the June meeting with President Reagan and the Prime Ministers of Canada and Japan. The Community will still be 25 years old when the Versailles Summit is convened, still time to invest this anniversary with the dignity of some clear and positive thinking.

# German Autos Shift Out of Neutral

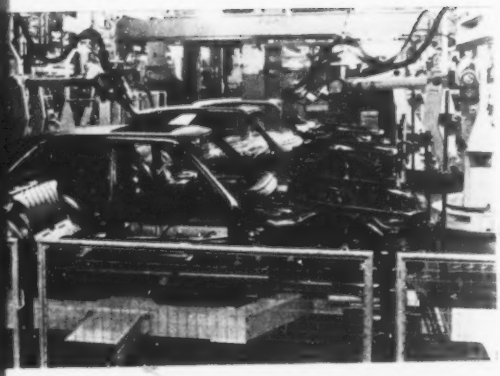
Last year produced no sign of solutions to the problems of the world automotive industry. If anything, by year-end uncertainty about the future direction of car production and exports in the major manufacturing countries had escalated. Detroit continued to stumble, awash in red ink. Japan's nimble car shoguns took steps to muffle an export drive that many countries find both awesome and threatening. The German industry can look back on 1981 with ambivalence. Profits slumped badly, but at least they were there. On the other hand, the safety margin is thinner and capital investment over the next few years will remain high.

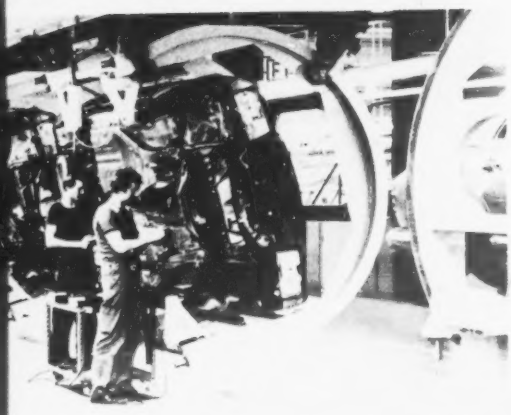
The number of motor vehicles of all types manufactured in the Federal Republic rose by some 20,000 over the previous year. Industry executives could derive some satisfaction from the strong fourth quarter, which nearly reached the level of the boom years of 1978 and 1979. Total output of passenger cars for the year increased over 1980 by just under 2 percent to 3,577,807 units (1980: 3,520,934). By contrast, commercial vehicle production decreased by 11 percent to 319,200 units versus 357,619 in 1980.

### Exports spur growth

As in many other branches of German industry last year, demand from abroad was decisive for the recovery in car production. Exports gained perceptible momentum in the course of the year, but leveled off towards the end of the year. At 1,949,535 units, the number of cars shipped abroad rose 4 percent above the 1,873,494 exported in 1980. However, this was still below the 1979 performance, when the German industry exported just under two million cars.

German manufacturers achieved significant increases in sales to France, Great Britain, and Italy. With deliveries to these three countries rising by a total of more than 100,000 units, the Germans' market share expanded too. While quota regulations or voluntary export limita-





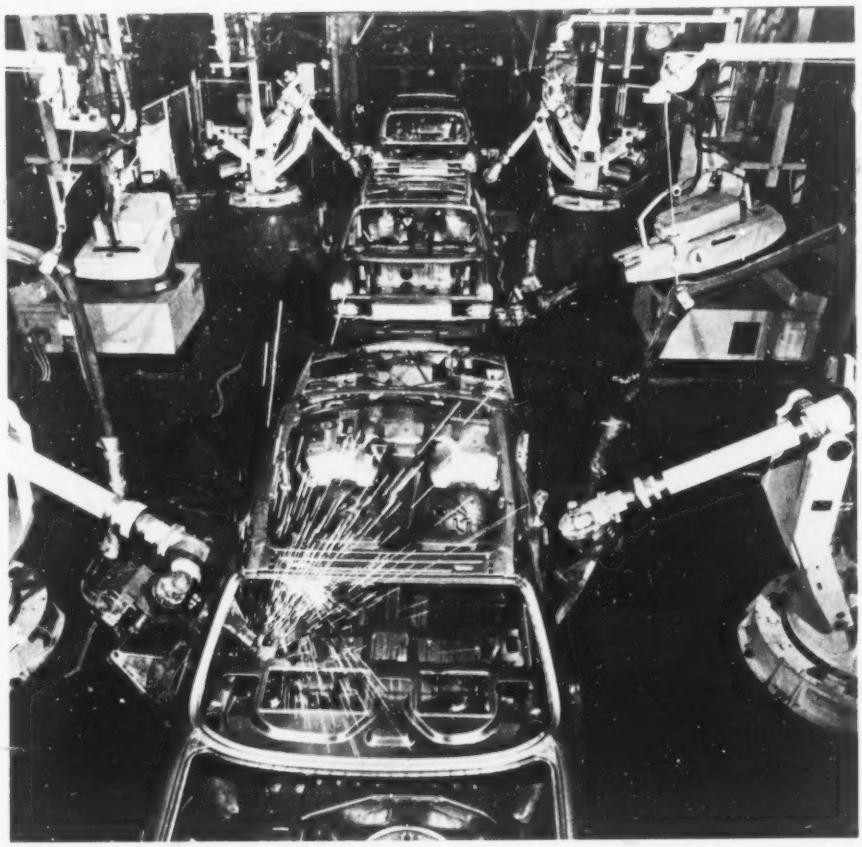
## GERMAN AUTOMOTIVE INDUSTRY IN NUMBERS

| | *1979* | *1980* | *1981* |
|---|---|---|---|
| Domestic production | 4,250,000 | 3,879,000 | 3,897,000 |
| of which, cars | 3,933,000 | 3,521,000 | 3,578,000 |
| Foreign production | 1,279,000 | 1,278,000 | 1,063,000 |
| Export | 2,176,000 | 2,084,000 | 2,153,000 |
| New registrations | 2,794,000 | 2,602,000 | 2,479,000 |
| of which, cars | 2,623,000 | 2,426,000 | 2,330,000 |
| Employees | 665,000 | 656,000 | 661,000 |
| Total sales (in DM bil.) | 102 | 102 | 108 |
| of which, foreign | 43 | 45 | 51 |

Source: Verband der Automobilindustrie

tions restricted Japanese competitors in these three countries, the Germans also raised shipments to countries where imports from Japan were not regulated. For instance, a comparison between the last quarter of 1980 and the last quarter of 1981 shows that German passenger car manufacturers succeeded in increasing their share of the market from 33.4 to 40 percent in the Benelux countries, from 29 to 36 percent in Scandinavia, and from nearly 43 to 47 percent in both Austria and Switzerland. In all, German car shipments to Western European countries increased by 10 percent.

German sales in Africa, Asia and Australia also rose, but the U.S. car recession brought overall export results down from the 1980 level. However, Mercedes-Benz and BMW both achieved record years in the U.S. market, with unit sales up 17.2 and 12.8 percent respectively.

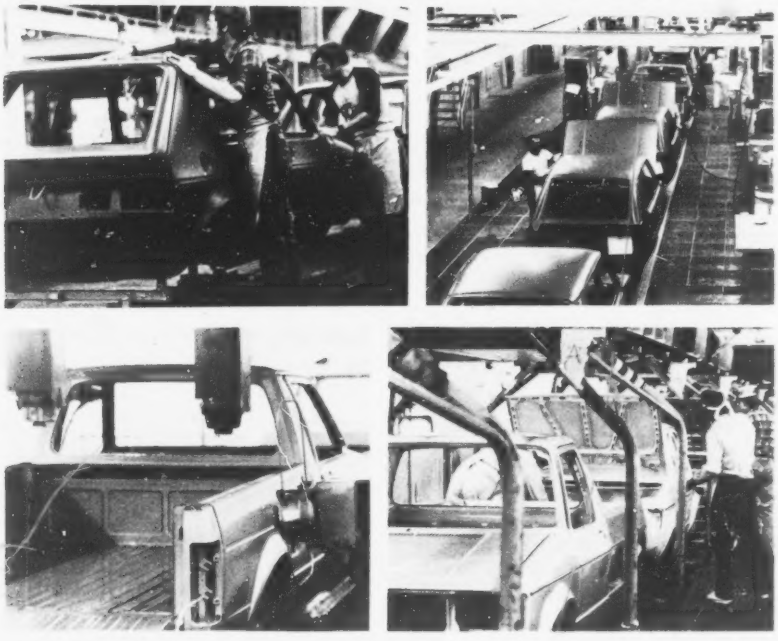


### Improving domestic market share

German manufacturers last year succeeded in reasserting themselves in the Federal Republic. The market share of foreign makes of motor vehicles dropped from 26.3 to 25.3 percent, with the German gain coming almost evenly at the expense of Japanese and European manufacturers.

Still, the general decline in sales last year had its consequences for German producers, as total sales at home dropped by 4 percent to 2,330,335. The causes of this continuing slump were pressure on household budgets from rising energy prices, persistently high interest rates, surging unemployment and general pessimism regarding the economic situation. Finally, domestic demand for cars was blunted by an increase in gasoline taxes, which took effect in early April.

As in the United States, the higher cost of gasoline and better fuel economy have made diesel-powered vehicles increasingly attractive to the public. New registrations of cars with diesel engines increased last year by more than two-thirds over 1980, accounting for 19 percent of all passenger cars registered in the last quarter of 1981 and 14 percent for the entire year. Nevertheless, the proportion of diesel-powered vehicles in the total



**1981 MARKET SHARE, GERMANY**

| Comp | Share in % |
|---|---|
| VW/Audi | 30.4 |
| Opel | 16.4 |
| Ford | 11.3 |
| Daimler-Benz | 10.6 |
| BMW | 5.7 |
| Renault | 4.3 |
| Fiat | 4.0 |
| Toyota | 2.0 |
| Nissan-Datsun | 1.9 |
| Citroen | 1.9 |
| Mazda | 1.9 |
| Mitsubishi | 1.9 |
| Honda | 1.8 |
| Others | 5.9 |

Source: Kraftfahrt-Bundesamt

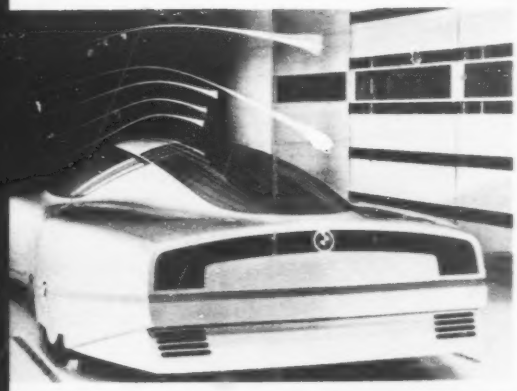
passenger car population is a modest 6 percent.

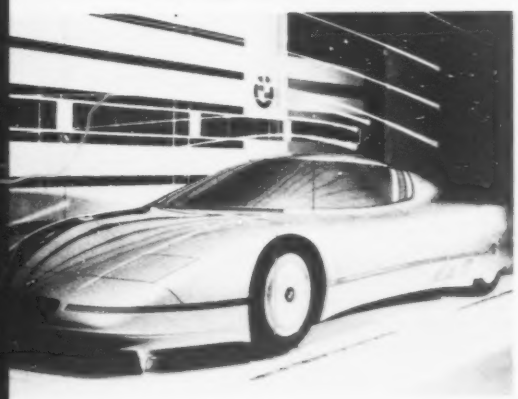
Whereas performance in the automobile sector was generally positive in 1981, output of most types of commercial vehicles was down sharply, with production in the key truck sector off a full 13.5 percent. The jump in exports of heavy vehicles, primarily to the Middle East and Africa, was not strong enough to prevent the quantity of commercial vehicles exported by German manufacturers from falling by 3 percent last year.

Domestic sales of commercial vehicles also fared poorly in 1981. Trucks were down by 17 percent, buses by 18 percent, and semitrailor tractors by 24 percent. Here, too, the Japanese are becoming an increasingly important factor in the German market. Nipponese manufacturers increased turnover by half last year: with sales of 6,600 vehicles, they increased their share of the overall commercial vehicle market to more than 4 percent, compared to 2.5 percent in 1980 and only 1 percent in 1979.

### Feeble output abroad

Production by German automotive manufacturers in foreign facilities fell by some 17 percent last year, a drop largely attributable to a serious decline in car production in plants located in the United States and Brazil. However, the trend was steadily upwards for commercial vehicles. Foreign output of trucks and buses reached 175,000 last year, up 7.5 percent from 1980 and impressively above the 137,300 units produced in 1979. Impor-





tant momentum in this sector was provided by the rise in the production of pick-ups in the United States.

Combining domestic and foreign production, German manufacturers turned out almost five million motor vehicles worldwide, about 4 percent fewer than in 1980. However, if only motor vehicles manufactured in the Federal Republic are taken into account (+0.5 percent), the German share of worldwide output increased slightly to 10.4 versus 10 percent in 1980. Measured by any standard, the West Germans had a much better year than other European producers, most of whom suffered severe setbacks: France (-11%); Great Britain (-12%); Italy (-9%); and Spain (-16%). Even the vaunted Japanese industry managed to increase output of all types of vehicles by only 1 percent.

For the country as a whole, the relative strength of the German automotive industry provided a modest buffer from the generally pervasive economic decline. For instance, while the jobless rolls across the country was expanding at an alarming rate, employment in Germany's automotive plants had actually risen by 2 percent over the 1980 level. The industry contributed significantly to the reduction of the nation's balance-of-payments deficit with total exports of DM 7.3 billion while imports rose only DM 1 billion. Finally, against a strongly declining trend in outlays for capital investment, the industry — according to conservative estimates — spent around DM 7.2 billion for new plant and equipment, a sum at least as

## Mixed outlook for '82

The main obstacles to increased domestic sales last year — high interest rates and economic stagnation — are unlikely to recede markedly, if at all, in 1982. Industry executives can only hope that two years of slack sales at home have created a backlog of demand that will emerge this year as a positive factor.

Margins in the last two years have taken a beating. In 1981, profits before taxes for the German industry were almost 60 percent below those of 1979. This situation is like to deteriorate further due to recent and anticipated increases in the price of steel. By the fourth quarter of 1981, the list prices of all grades of rolled steel were on average 32.8 percent above the level of the corresponding quarter the previous year. After hikes already scheduled to go into effect later this year, the price of steel by the third quarter will be a full 56 percent higher than in the last quarter of 1980. Given sluggish demand at home and stiff competition abroad, it seems entirely logical to assume that profit margins will suffer further erosion.

Results to date in 1982 are encouraging. In the first two months, production of autos and commercial vehicles rose 13.8 percent over the January-February period of 1981, 725,800 versus 637,586. Output of cars and vans was particularly robust, leaping almost 16 percent over the like period last year. Although the market in Germany remains weak, exports were up almost 16 percent over the first two months of last year.

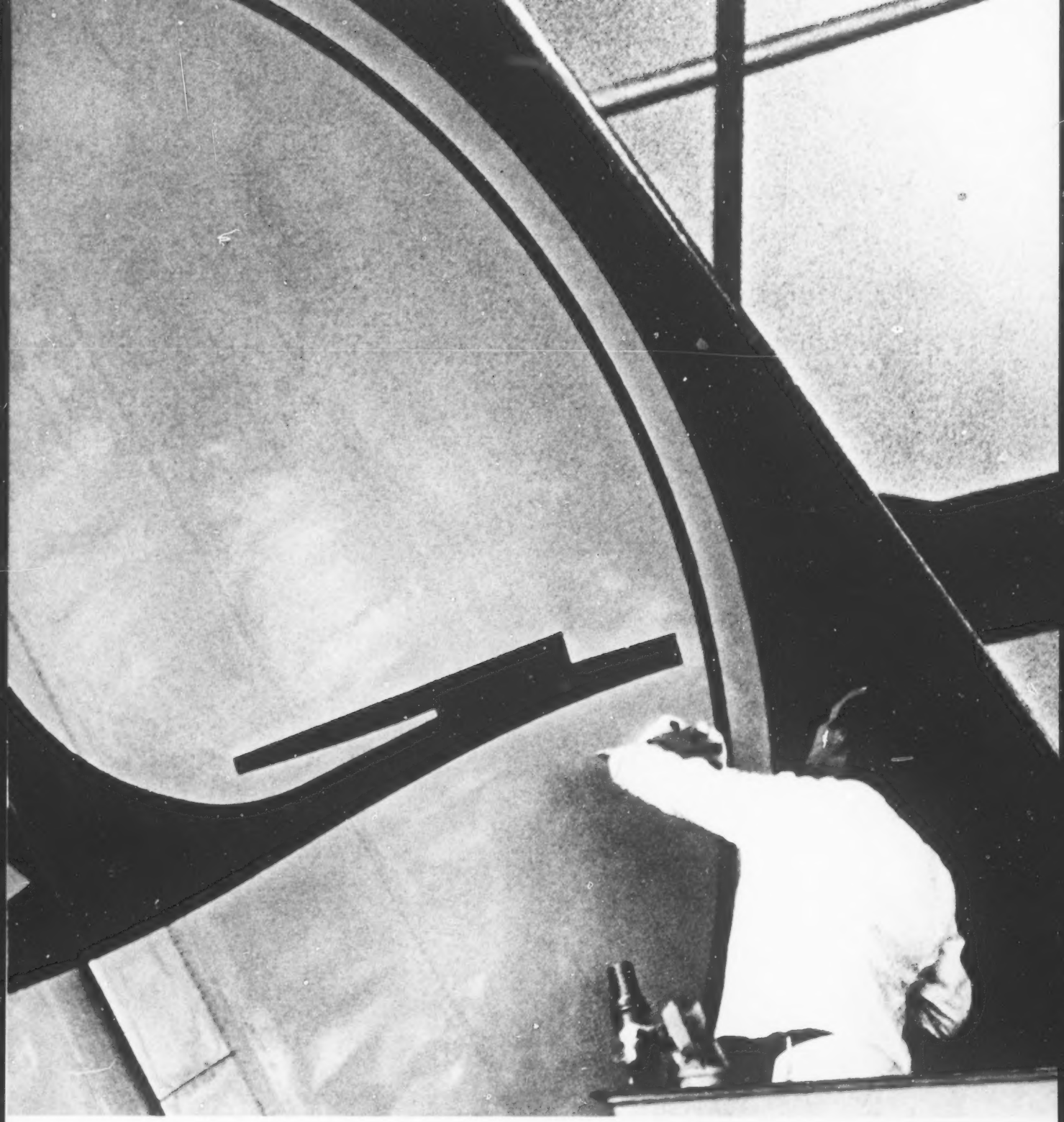
Premature projections based upon the first two months of the year are treacherous, and spokesmen for the German industry are being suitably cautious. Nevertheless, the industry's heavy investment in R&D and automated production systems, strict surveillance over costs, and its renowned quality control have probably set the stage for some improvement over the lethargy of the last two years. Barring a pronounced turn for the worst in the economy, the German automotive industry just might pick up some significant horsepower on the road to full recovery. ■

# German-American Economic Review in Figures

| | Federal Republic of Germany | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1981 | | | 1980 | 1981 | 1981 | | |
| | | | Oct. | Nov. | Dec. | | | Oct. | Nov. | Dec. |
| **FOREIGN TRADE** (in mil. $) | | | | | | | | | | |
| Imports | 188,000 | 163,907 | 14,483 | 14,462 | 13,645 | 249,249 | 261,153 | 23,190 | 22,473 | 19,474 |
| Exports | 192,860 | 176,085 | 16,755 | 16,236 | 15,922 | 220,684 | 233,533 | 19,044 | 19,118 | 18,821 |
| Balance on merchandise trade | 4,859 | 12,178 | 2,372 | 1,774 | 2,277 | –28,565 | –27,620 | –4,146 | –3,355 | –653 |
| **U.S.-GERMAN TRADE** (in mil. $) | | | | | | | | | | |
| U.S. imports from Germany | 11,822 | 11,502 | 1,213 | 1,116 | 1,160 | 11,681 | 11,379 | 973 | 999 | 1,056 |
| (+) (–) % from previous year | 4.3 | –2.7 | 19.6 | 28.3 | 14.7 | 6.6 | –2.6 | 12.9 | 14.0 | 17.9 |
| U.S. exports to Germany | 14,156 | 12,611 | 1,159 | 1,011 | 1,080 | 10,732 | 10,075 | 889 | 826 | 782 |
| (+) (–) % from previous year | 27.8 | –10.9 | –2.3 | –6.0 | –3.3 | 29.7 | –6.1 | 4.2 | –5.9 | –3.5 |
| Balance on U.S.-German trade | –2,334 | –1,109 | 54 | 105 | 80 | –949 | –1,304 | –86 | –173 | –274 |
| **INDUSTRIAL PRODUCTION** | | | | | | | | | | |
| (+) (–) % from previous year | –0.4 | –1.8 | 0.8 | –2.0 | –2.0 | –3.6 | 2.7 | 1.7 | –1.9 | –4.7 |
| Iron and steel | –3.3 | –2.6 | 0.6 | 3.6 | 10.9 | –18.9 | 7.9 | 0.2 | –19.0 | –24.5 |
| Machines, exc. elec. | 3.4 | –1.2 | 2.4 | –1.1 | –9.8 | –0.7 | 5.0 | 5.5 | 3.1 | –1.3 |
| Electrical machinery and equipment | 3.2 | –1.6 | –0.9 | –3.3 | –1.2 | –1.3 | 3.4 | 5.8 | 1.9 | –1.7 |
| Chemicals | –4.0 | 1.6 | 5.7 | 0.7 | 0.5 | –2.4 | 4.1 | –0.3 | –3.1 | –9.8 |
| Road motor vehicles | –4.6 | 3.1 | 12.8 | 11.0 | 14.3 | –25.7 | 2.8 | –7.6 | –18.3 | –19.9 |
| Textiles | –0.9 | –8.2 | –6.5 | –7.6 | 0.7 | –5.7 | — | –1.4 | –6.2 | — |
| Apparel | –5.1 | –6.6 | –7.0 | –10.9 | –6.4 | –4.4 | — | –3.2 | –9.0 | — |
| **LABOR MARKET** | | | | | | | | | | |
| Population (in mil.) | 61.7 | 61.7 | — | — | — | 227.7 | 229.7 | 230.5 | 230.7 | 230.8 |
| Civilian labor force (in 1000) | 25,795 | — | — | — | — | 106,940 | 108,670 | 109,012 | 109,272 | 109,184 |
| Unemployed (in 1000) | 889 | 1,272 | 1,366 | 1,490 | 1,704 | 7,637 | 8,283 | 8,669 | 9,100 | 9,571 |
| Unemployment rate (in %) | 3.8 | 5.5 | 5.9 | 6.4 | 7.3 | 7.1 | 7.6 | 8.0 | 8.3 | 8.8 |
| Gross hourly wages in manufacturing (in DM or $) | 13.41 | 14.19 | 14.41 | — | — | 7.27 | 7.98 | 8.15 | 8.18 | 8.18 |
| (+) (–) % from previous year | 6.9 | 5.8 | 5.7 | — | — | 10.9 | 9.8 | 8.8 | 7.8 | 7.2 |
| **PRICES** (+) (–) % from previous year | | | | | | | | | | |
| Consumer Price Index | 5.5 | 5.9 | 6.7 | 6.6 | 6.3 | 13.5 | 10.4 | 10.2 | 9.6 | 8.9 |
| Producer prices for ind. products | 7.5 | 7.8 | 8.7 | 8.4 | 8.2 | 16.1 | 10.7 | 9.5 | 9.1 | 8.2 |
| **CURRENCY EXCHANGES RATES** (avg.) | | | | | | | | | | |
| Value of $1.00 in DM | 1.8158 | 2.2610 | 2.2522 | 2.2245 | 2.2577 | | | | | |
| Value of DM 1.00 in $ | | | | | | 0.5509 | 0.4436 | 0.4437 | 0.4486 | 0.4429 |

| | 1980 | 1981 | 1981 | | | | 1980 | 1981 | 1981 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | I | II | III | IV | | | I | II | III | IV |
| **NATIONAL ACCOUNTS** | | | | | | | | | | | | |
| Gross National Product at current prices (in bil. DM or $) | 1,497 | 1,549 | 1,431 | 1,512 | 1,578 | — | 2,626 | 2,922 | 2,853 | 2,886 | 2,947 | 2,985 |
| (+) (–) % from previous year, real terms | 1.8 | –0.3 | –2.0 | –0.7 | –1.5 | — | –0.2 | 1.9 | 1.0 | 3.2 | 2.5 | 0.7 |
| Balance on current account (in mil. M or $) | –29,832 | –17,494 | –9,138 | –5,339 | –12,012 | 8,994 | 3,723 | — | 3,263 | 1,142 | 2,100 | — |
| Monetary reserves (in mil. $) | 55,000 | 49,925 | 56,614 | 54,374 | 53,050 | 49,925 | 26,760 | 30,070 | 30,410 | 29,580 | 29,710 | 30,070 |
| Direct investment, cumulative at period end (in mil. DM or $) | | | | | | | | | | | | |
| — German investment in the U.S. | 74,162 | — | — | 78,471 | — | — | 213,468 | — | — | — | — | — |
| | 15,664 | 18,971 | — | 16,821 | — | 18,971 | | | | | | |
| — U.S. investment in Germany | | | | | | | 15,393 | — | — | — | — | — |
| Foreign direct investment | 57,616 | — | — | 59,469 | — | — | 65,483 | — | — | — | — | — |
| — U.S. investment in Germany | 20,312 | — | — | 20,582 | — | — | | | | | | |
| — German investment in the U.S. | | | | | | | 5,290 | — | — | — | — | — |

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
U.S. Department of Commerce
U.S. Department of Labor
Federal Reserve System
International Monetary Fund



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# Comparing Compensation: A Tricky Exercise Today

**Fortunat F. Mueller-Maerki**

Heinz Apfel, director of marketing for a major German chemical company, was on a flight from New York to San Francisco when he discovered that his seatmate, William Orange, occupied a similar position with a U.S. concern. Naturally, the conversation turned to chemicals and the European and American executives chatted on about the intricacies of their industry. It was Mr. Orange who brought the discussion to an abrupt close with what he thought was a simple question: "By the way, how much do you earn?" Herr Apfel turned away to look out the window, and said: "Pardon me, but I would prefer to keep my compensation private."

This story, admittedly apocryphal, points up a fundamental cultural difference between Europeans and Americans which begins to explain why it is very difficult — if not impossible — to apply the compensation practices of one continent to another. Neither Herr Apfel nor Mr. Orange was being intentionally boorish. In Europe money is something one has and doesn't talk about, while it often seems to be the first subject of conversation in the U.S. These ingrained attitudes and related business practices must be appreciated and understood by Europeans wishing to operate successfully in America and, of course, vice versa.

### Salary structures

Take the matter of salary structures, which are much more formalized in the U.S. Moving up the corporate ladder at General Motors, for example, executives pass through 26 salary levels, each one classified by position description. In Europe, on the other hand, salary structures traditionally have been so much more flexible that the word "structure" becomes almost a misnomer.

Our experience on both continents illustrates the point. Starting out a systematic executive search for an American client, we can expect to fill the position with a salary either ten percent above or below the mid-point of a stated salary level. But in Europe we have experienced swings of as much as 35% on either side of an initial target salary, which itself is often not part of a rigid structure.

Part of the greater European flexibility stems from the cultural bias of not talking about money. Comparative salary surveys, while increasing in popularity are less prominent, and individuals, like Mr. Apfel, will not discuss their own pay. In fact, many Swiss and German companies have contractual clauses with their exempt employees (those who bargain on an individual basis) which forbid them to reveal their compensation to anyone within the company or to outsiders. Another factor encouraging the wide European salary range may be that companies there tend to be smaller than in the U.S., and small companies are inherently more flexible. One practical result of this situation is that European firms, not bound by formal structures, have far greater latitude in pursuing outstanding executives with offers of generous salaries, and highly individualized compensation packages.

**"Europeans tend to take a longer-term view of corporate goals, and eye the American 'quarter-by-quarter' approach with suspicion."**

### Performance pay

Performance pay, primarily bonuses and stock options, is rapidly growing in importance as part of the executive com-

*Exchange rate changes versus dollar and on a trade-weighted average basis*

*percent*

| | "Reagan dollar" (Oct. 1980 to early Aug. 1981) | | | early Aug. 1981 to present | | |
|---|---|---|---|---|---|---|
| | vs. dollar | Nominal effective | Real effective | vs. dollar | Nominal effective | Real effective |
| Dollar | — | 18.9 | 21.8 | — | —6.7 | —8.6 |
| Canadian dollar | —5.8 | —2.0 | —2.9 | 4.4 | 4.5 | 5.5 |
| Japanese yen | —13.3 | —3.0 | —12.4 | 11.0 | 7.8 | 9.0 |
| French franc | —29.2 | —6.2 | —3.0 | 4.5 | —2.0 | 0.0 |
| German mark | —27.0 | —3.2 | —6.0 | 11.0 | 4.6 | 5.8 |
| Italian lira | —29.9 | —6.7 | —1.4 | 2.9 | —4.5 | —3.4 |
| British pound | —25.5 | —5.2 | —6.2 | 5.2 | 1.3 | —1.0 |
| Dutch guilder | —28.6 | —4.4 | —4.8 | 12.4 | 4.5 | 3.5 |
| Belgian franc | —28.5 | —3.4 | —3.1 | 8.0 | 0.0 | —5.0 |
| Swiss franc | —24.1 | 0.2 | —3.3 | 20.3 | 12.5 | 12.2 |
| Danish krone | —28.5 | —6.4 | —3.8 | 7.6 | 1.9 | —2.0 |

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*Mr. Mueller-Maerki is a partner in the New York office of Egon Zehnder International Inc. He has worked extensively with leading corporations in Germany and Switzerland.*

pensation package on both sides of the Atlantic. As with salary structures, the American approach differs markedly from the European. With bonuses, there is more relative weight in the U.S. on individual accomplishment, for example, managing a unit like a division. European executives tend to see themselves as part of a larger entity and view their bonuses as by-products of the corporation's prosperity. The attitude is best summed up as: "If I do a good job, the company will take care of me," and has ramifications beyond compensation. The European executive is typically even less likely to want to relocate, compared to his American counterparts.

The individual/entity difference is further compounded by U.S. reliance on bonus awards by formula as opposed to

**"Serving short-term goals can lead to decisions of questionable merit."**

the European discretionary method. An American sales executive, for example, knows that he will earn a certain amount for every unit sold above a target goal. As the reporting period (month, quarter, fiscal year) proceeds, he can predict with reasonable accuracy his performance pay and, probably, the amount of work necessary to achieve it.

### The long-range view

Europeans tend to take a longer-term view of corporate goals, and eye the American "quarter-by-quarter" approach with suspicion. That view, coupled with more liberal accounting standards, encourages European executives to shift a corporation's assets to the divisions which need them most, *regardless* of how one division's short-term profitability may be affected. The long-term viability of the corporation is the end which must be served. In that climate, bonuses based on the short-term profit performance of a small entity are more difficult to measure, and the European bonus system, therefore, is more discretionary. Management rewards the executives for their perceived contributions to the whole.

### Stock options

Contrasting European and American attitudes are also responsible for completely different approaches to the other side of the performance pay coin, stock options. The options, which offer executives the chance over a specified period of

**"The current influx of European capital to the U.S. has created a surge in demand for capable American managers."**

time to buy their corporation's securities at a price usually less than market, have become a powerful inducement for American managers. Stock option plans play a key role in the compensation packages for the senior executives of almost all public companies in the U.S.

For better or worse, this trend has had the effect of making Wall Street's influence pervasive in almost all business decisions, as opposed to its initial role in raising capital. When executive compensation is tied to stock price performance, and when that performance seems to be tied to the expectation of future earnings based on a company's ability to improve profits on a quarter-by-quarter basis, there is enormous pressure on the executives to "do something, right here and now." Serving short-term goals can lead to decisions of questionable merit, such as deferring necessary capital expenditures to meet the perceived need of improved quarterly earnings.

These potential problems are often compounded by greater executive mobility in the U.S. Some executives think: "By the time the impact of this investment is felt on the bottom line, I might not be with the company anymore. And, if I am, it certainly won't be in this job. Therefore, making this investment now probably won't benefit me."

Europeans take a completely different view of the subject and stock options play only a minor role in the performance pay scenario. The European investor tends to view the highly-leveraged option as speculation, rather than an investment. The European executive would prefer to invest in his company, i.e., to purchase shares in his corporation outright, based on his feeling that the company was fundamentally strong for the long-term. He wants to own part of the business, rather than a piece of paper whose value may appreciate or depreciate the day-after-tomorrow.

The mechanics of the European securities markets also weigh against use of stock options. Many of the larger public companies have issued relatively few shares, compared to American concerns, and the resultant stock prices are too high to be used in compensation packages. For example, the shares of Swiss drug manufacturer Hoffman LaRoche several years ago traded at a price of roughly $100,000 each. The situation has ameliorated somewhat — the shares now trade in tenths — but even that reduction puts the stock price far beyond the range of a practical option plan.

### Financial incentives

While these different approaches to performance pay are viable on their "home grounds," it's obvious something has to give when corporations do business on a worldwide scale. The current influx of European capital to the U.S. has created a surge in demand for capable American managers. Many of the cases we have seen demonstrate the need for sensitivity and flexibility on the part of both European executives and the Americans they hire.

Many of the European investments are in "start-up" situations, which adds to these problems. The American executive is accustomed to a formula bonus, but how does the new subsidiary construct a formula with a product which might not be produced or sold for several years? It's also highly unlikely that stock options can be part of most European company packages.

**"Often, the best approach for the parent company is to offer a substantial discretionary bonus to executives in new operations."**

There are no easy answers in all these areas, but it is our experience that, with the help of someone familiar with both cultures, solutions can be found. Often, the best approach for the parent company is to offer a substantial discretionary bonus to executives in new operations. This decision, combined with a declaration that a formula bonus plan will follow as the subsidiary grows, is a good take-off point. The formula bonus plan should be made particularly attractive in order to compete with the stock options available to executives from other companies.

### Currency fluctuations

Returning now to our friends on the airplane, we find another fundamental irony in Mr. Orange's question and Herr Afpel's response. The answer wouldn't mean anything because it is virtually impossible to compare the compensation of executives from different countries. Volatile currency exchange rates are the primary reason. These fluctuating rates create a new set of management prob-

## Real effective exchange rates

*Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.*

| | United States | Canada | Japan | United Kingdom | Germany | France | Italy | Belgium | Netherlands | Switzerland | Austria | Denmark | Norway | Sweden | Australia | Spain |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1977 | 100.9 | 99.2 | 93.3 | 101.7 | 102.8 | 96.7 | 92.1 | 99.0 | 104.1 | 105.2 | 109.7 | 99.0 | 99.3 | 105.1 | 91.8 | 101.3 |
| 1978 | 96.5 | 92.1 | 107.0 | 106.5 | 103.5 | 97.4 | 90.8 | 98.6 | 104.1 | 122.4 | 109.7 | 103.3 | 94.6 | 96.8 | 87.0 | 97.2 |
| 1979 | 96.5 | 92.2 | 95.8 | 118.9 | 104.3 | 99.4 | 90.7 | 96.0 | 100.7 | 115.7 | 108.5 | 101.5 | 89.5 | 99.5 | 85.9 | 109.3 |
| 1980 | 98.3 | 91.3 | 93.5 | 138.5 | 101.3 | 101.2 | 93.1 | 90.6 | 97.4 | 105.6 | 109.2 | 94.1 | 91.6 | 101.1 | 87.4 | 103.5 |
| 1980 December | 100.9 | 89.3 | 99.9 | 146.6 | 98.2 | 101.5 | 93.0 | 87.5 | 94.2 | 103.2 | 107.5 | 92.7 | 92.2 | 101.7 | 89.8 | 100.3 |
| 1981 | | | | | | | | | | | | | | | | |
| January | 100.7 | 90.4 | 102.1 | 152.4 | 96.8 | 99.9 | 93.6 | 86.5 | 95.5 | 101.2 | 107.8 | 89.6 | 92.4 | 102.3 | 89.6 | 100.2 |
| February | 104.4 | 89.6 | 100.9 | 152.0 | 95.6 | 99.8 | 92.5 | 85.9 | 94.0 | 100.2 | 106.7 | 88.0 | 94.5 | 104.0 | 91.4 | 98.4 |
| March | 105.0 | 90.3 | 98.0 | 147.0 | 97.3 | 98.8 | 92.4 | 85.5 | 93.6 | 101.2 | 107.5 | 89.0 | 95.8 | 104.1 | 92.4 | 99.6 |
| April | 107.3 | 90.5 | 95.3 | 146.6 | 96.9 | 99.3 | 91.3 | 85.4 | 92.8 | 99.9 | 107.7 | 89.5 | 96.8 | 103.6 | 93.4 | 99.6 |
| May | 110.1 | 90.8 | 94.7 | 146.8 | 95.9 | 96.8 | 91.9 | 85.1 | 91.9 | 100.0 | 106.5 | 88.7 | 97.7 | 104.6 | 94.9 | 99.9 |
| June | 112.0 | 91.3 | 94.0 | 142.7 | 95.4 | 97.3 | 91.3 | 84.7 | 91.4 | 102.9 | 105.7 | 89.4 | 96.5 | 104.1 | 97.7 | 98.6 |
| July | 113.9 | 91.5 | 91.0 | 137.5 | 95.2 | 99.5 | 91.0 | 83.9 | 91.4 | 103.7 | 105.6 | 89.1 | 95.3 | 105.2 | 100.5 | 98.6 |
| August | 114.6 | 91.2 | 91.6 | 135.9 | 94.9 | 98.8 | 91.1 | 83.8 | 91.4 | 102.5 | 105.4 | 87.5 | 94.3 | 110.8 | 101.5 | 98.4 |
| September | 110.8 | 93.2 | 91.6 | 130.6 | 96.5 | 101.1 | 91.8 | 84.0 | 92.8 | 105.3 | 106.1 | 90.5 | 96.2 | 104.2 | 100.7 | 98.9 |
| October | 111.4 | 92.1 | 89.0 | 130.8 | 98.7 | 99.5 | 89.6 | 82.9 | 95.4 | 109.6 | 107.8 | 90.8 | 95.2 | 100.8 | 99.8 | 97.9 |
| November | 109.0 | 93.1 | 91.5 | 133.1 | 98.8 | 98.3 | 88.9 | 82.5 | 95.9 | 114.0 | 106.6 | 89.4 | 94.3 | 103.8 | 98.0 | 97.6 |

*Reprinted from "World Financial Markets," Dec. 1981, by permission of Morgan Guaranty Co. of New York*

lems, particularly in the area of executive relocation.

Consider, for example, the case of Smith and Jones, two "fast track" executives with a U.S. company headquartered in New York. They have equivalent salary, seniority and job histories. They're also friendly competitors and talk to each other frequently. To further evaluate their abilities, management decides in November, 1980 that Smith will head the company's San Francisco office and Jones will move to London. Salary review also takes place, and each is raised to $80,000 — although Jones will be paid the British equivalent, or £33,000 sterling.

A year later — November, 1981 — it's salary review time again and each man has done a superior job. Management decides to reward them with a 25% raise, which puts Smith at $100,000. Jones is to get the equivalent in British currency, and that's when problems start. Due to currency fluctuations, $100,000 is now worth £54,000, which means that Jones has inadvertently received a 63% raise over last year's £33,000. As a result, Smith could feel unwarranted resentment or Jones undue optimism about their futures with the company.

Looking at it from the other side of the ocean, we have Herr Buenzli, a senior executive with a Swiss company. He's asked in April, 1980 to move to New York to run the U.S. subsidiary and told his salary will be $100,000. That's 189,000 Swiss francs, a 14% raise over his previous 165,000 franc salary, so he's delighted and accepts the transfer.

One month later, Herr Buenzli, on the plane moving to the U.S. reads the *Wall Street Journal*. With alarm, he notes that currency changes have reduced the value of his $100,000 salary to 166,000 Swiss francs, which to him represents no raise at all. He feels let down, though he really shouldn't because his $100,000 income will still have the same buying power in the U.S. regardless of any exchange rate fluctuations.

### The idiocy of indexing

Some companies try to standardize compensation worldwide by using surveys which provide cost-of-living indexes for foreign cities and countries, paying their executives more when significant differentials exist. Unfortunately, these surveys often come to different conclusions because they use different "market basket" data. A quick comparison of the U.S. State Department index and one produced by Swissair will support that point. Often, the U.S. survey will say it costs more to live in Europe, while the Swiss data will prove that it is more expensive to live in New York than Europe.

Why the disparity? One reason is that the surveys take into account the nationalistic spending patterns of the expatriate executives. The diet staples of a European executive coming to the U.S. might include French and German wines, Swiss chocolates and a variety of fine cheeses. The expatriate will pay substantially more for these items in New York than in his homeland, but it is unlikely that they are a base part of the city's cost-of-living statistics, as assembled by a U.S. organization. Similarly, Americans accustomed to T-Bone steaks and Maine lobster will find the price of these foods almost prohibitively expensive in Europe.

**"Americans accustomed to T-Bone steaks and Maine lobster will find the price of these foods almost prohibitively expensive in Europe."**

The best — and perhaps only — solution to the comparative compensation problem is to use the pay scales of the countries/cities where you do business, pegging salaries to local market conditions. Seek expert advice within those areas because there are so many variables related to compensation and each case is different. The examples we have noted are only a few of the more obvious.

To conclude, don't generalize. That would be like comparing Apfel and Orange and we know what trouble that could cause. ■

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†Transportation, local taxes and dealer delivery charges additional.

# Sales Agency and Distributors Agreements à la U.S.A.

# Can You Muster One Up?

**Aaron N. Wise**

Bitte senden Sie mir ein Muster eines typischen Handelsvertretervertrages oder Vertriebsvertrages fuer den U.S.A. (Please, send me a model of a typical sales agency or distributorship contract for the U.S.A.)!

I frequently have received this sort of request from German, Austrian and other European companies. So, it seems, has the German-American Chamber.

The reply is simple: There are no such typical model agreements. Sales agency, distributorship and similar agreements used in the U.S.A. vary considerably in their substance, length and form. No two U.S. lawyers would prepare the same agreement.

Why is this? In many European countries, one can obtain typical model agreements of these types. Why not in the U.S.A.?

While not exhaustive, a few reasons are as follows:

1. Continental European countries such as Germany have specific and fairly extensive provisions in their Codes applicable to intermediaries of various types, such as the commercial agent or Handelsvertreter (84 et.seq., German Commercial Code). While many, if not most of those provisions can be altered or waived by contract, if this is not done, then those Code provisions will apply. Thus, there is in many cases no need to prepare elaborate contract clauses covering points dealt with in the Codes — the Code provisions cover them. Even where the European lawyer or businessman wishes to exclude or modify by contract certain Code rules, this can usually be done with relatively few words. Not so in the U.S.A. In the States, we have no uniform code or law which regulates sales agency or distributorship agreements. By and large, such agreements would be governed by the law of a particular state (e.g., New York), and there is little in the way of specific statutory law governing such agreements. And what there is is dispersed. There are some relevant provisions in the Uniform Commercial Code, perhaps some in state statutes; some in federal law; rules from cases, etc. But certainly there is nothing in U.S. law (state or federal) comparable to the German Commercial Code's treatment of the Handelsvertreter.

2. U.S. lawyers are trained to write detailed, comprehensive agreements. While one can find, in a legal form book, one or more "so-called" models of a sales agency, sales rep or distributorship agreement, few qualified U.S. lawyers would use one as the actual agreement. Such would at most be a very rough guide for the U.S. lawyer, who would add, subtract and modify them substantially. The U.S. businessman is accustomed to this. The U.S., for good or for bad, is a legalistic country.

*Mr. Wise, a partner of the New York City law firm of Rosenbaum, Wise, Lerman, Katz & Weiss, has studied law in Europe and is the author of the treatise: Trade Secrets and Know-How Throughout the World.*

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3. U.S. antitrust laws, franchise acts and regulations and rules of certain states (and German law) allowing a sales agent, distributor or franchisee an indemnity on termination of the agreement make it desirable to carefully custom-draft agreements of this type for the U.S. market.

4. Americans, both companies and individuals, are more prone than Germans and other Europeans to sue. Often, a law suit or the threat to sue is utilized by the U.S. party as a club to obtain a favorable money settlement or other desired concessions, such as a new agreement on more favorable terms. For example, the following is not an uncommon situation: a foreign supplier has a money claim against a U.S. distributor, and brings suit. The U.S. distributor consults his lawyer, who finds certain provisions in the contract and conduct by the supplier which "might" possibly constitute a violation of U.S. antitrust law. U.S. antitrust law permits any injured party to sue for three times his provable damages. The U.S. distributor then files a counterclaim for 1 million U.S. dollars or more. The result is often that the foreign party drops his suit and claim, and/or agrees to an unfavorable settlement. U.S. lawyers, especially those representing foreign clients, are familiar with this pattern, and try to protect their client by careful contract draftsmanship.

5. The U.S. side will most often be represented by a U.S. lawyer, who will want to protect his client. The result is often more extensive negotiations and drafting for a sales agency or distribution agreement, and longer, more elaborate provisions than those to which the European supplier is accustomed. Sometimes, the European businessman will not see the need for a lawyer for a "simple" agreement like a sales agency or distributorship. In my experience, he is wrong insofar as agreements with U.S. agents and distributorships are concerned.

6. It is practically impossible to utilize a typical German (or other European) sales agency or distributorship agreement for the U.S. market. German legal concepts differ from their U.S. counterparts, as does the style of drafting. While no one expects litigation when preparing a contract, nevertheless an agreement for the U.S. market should be written in such a way that the parties, and the judge, in case of litigation or arbitration, can understand and interpret it.

Sometimes, the European party will be tempted, in its agreement, to carry over to the U.S. market German legal concepts like the *Eigentumsvorbehalt* (retention of title of goods by the seller, usually, until full payment is received) or *Sicherungsuebereignung* (similar in some respects to a security interest in U.S. law). This will normally not be possible, and is not the way to obtain "security" for the payment of obligations, e.g. — in U.S. sales transactions.

Under U.S. law it is possible, if both parties agree, to provide for the application of German law to the agreement, and for a German court or arbitrators sitting in Europe to resolve all disputes. Such clauses, however, pose many problems and may or may not be advantageous for the European businessman.

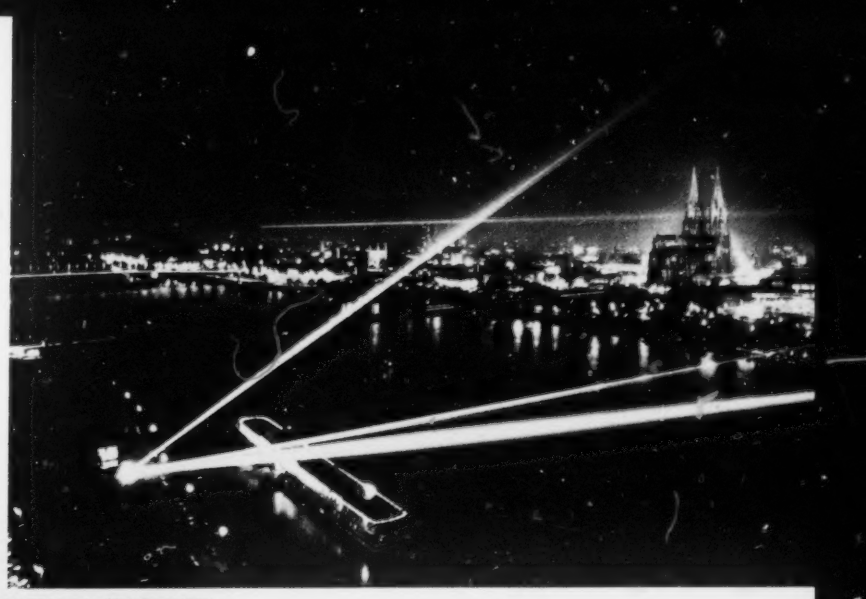
For the most part the above comments do not apply only to sales agency and distributorship agreements. They apply as well to most types of U.S.-style agreements, for example, license agreements, joint venture agreements, acquisition agreements, etc.

The foregoing situation is, in my view, not the fault or the creation of U.S. lawyers. The blame, if any is to be laid, lies in the structure of the entire Anglo-American legal system, our federal system, and the fact that U.S. law, state and federal, is so complicated and dispersed.

During my legal studies in Europe and for a time thereafter. I had felt that the U.S. legal system was better than European legal systems. But with the passage of time I have come to appreciate the benefits of the European Code system to the businessman: predictability, simplicity; smaller legal fees; and less litigation.

In my view, there is little likelihood the situation in the U.S.A. will change. Rather, due to antitrust law in the European Economic Community assuming greater importance and other European developments toward legal complexity, the time may well come when the Europeans will no longer rely on standardized agreements for European markets. ■

# Trade Fairs



### Interest in American sportswear

Budding optimism among both exhibitors and buyers was the chief feature of the INTERNATIONAL MEN'S FASHION WEEK, held together with the INTERNATIONAL JEANS FAIR, two three-day events which came to an end on Sunday, February 28, 1982. The major effort made by fashion producers to present tightly costed collections reflecting contemporary life styles and meeting specific consumer requirements in the way of sensible casual wear lending itself to ready combination was rewarded with a lively response from the trade.

All three days at the fair were marked by good international attendance of high standing. The joint fairs attracted 25,150 trade visitors from 56 European and overseas countries to Cologne, where they were made acquainted with the product ranges of the international menswear industry. Attendance included 7,150 visitors from outside Germany, who accounted for 28 percent of the total.

At the supply end of the market, there was a total of 805 firms from 34 countries. The INTERNATIONAL MEN'S FASHION WEEK featured the product ranges of 559 firms (359 from inside, 200 from outside Germany, foreign share: 35.2 percent), while the INTERNATIONAL JEANS FAIR presented the ranges of 246 firms from 18 countries, including items for the target groups women and children (167 firms from inside, 79 from outside Germany, foreign share: 32.1 percent). The two joint fairs occupied Halls 13 and 14, covering a total gross display area of 65,000 square meters.

The United States sent 17 direct exhibitors and 2 other represented firms, who showed men's outerwear, casual and sportswear, jeans for men, women and children, T-shirts, neckties and accessories. For the first time, the Jeans Fair had a group display by 12 firms in association with the US Department of Commerce, Washington. Stand spokesmen were agreed that the present high dollar rate was impairing current business and making it difficult to establish new business contacts. Some reported sales, e.g., in active sportswear, above all tennis wear, to Cyprus and Kuwait. European buyers showed some interest in American casual wear, which suggests good post-Fair business. Contracts were concluded with Germany, Holland and Switzerland for trousers and T-shirts. New customers for sportswear were added to the lists.

### Photokina bookings up

The organizers — the Cologne Trade Fair Company and the Photographic Manufacturers Association, Frankfurt — expect about 1,200 companies from 34 countries, compared to 1,107 in 1980, to attend the forthcoming 17th photokina, the World Fair of Photography — Photo • Cine • Video • Audiovision, in Cologne from Wednesday 6 to Tuesday 12 October 1982. By early March registrations had been received from over 800 companies, 60 per cent of them coming from abroad. Above all there will be more exhibitors from France, Italy, Japan, the United States and the Federal Republic of Germany. Video, audiovision, technical photography and studio equipment are sectors which will profit most by this growth. The exhibition area for photokina 1982 is therefore being enlarged to 128,000 square meters.

### International Spring Fair '82

Following the near-success of the Frankfurt International Spring Fair, the chances are good that the decorative consumer goods industry can avoid donning its last hairshirt. In the light of their sharply reduced expectations, a good 60 percent of the 3,660 exhibitors from more than 50 countries emerged from the round of the trade fair business with an air of confidence, with the foreign buyers from 83 countries having been the ones to boost the good mood. None of the branches had to cope with a level of satisfaction below 50 percent, but this result cannot disguise the very difficult and persistently low economic point of departure at all points around the globe. The extreme variations between individual experience were even more marked than in past years: often totally contrasting fair results were registered from stand to stand — although in the same sphere.

With a market situation which has deteriorated in comparison to the year before, the fact that the number of trade visitors was nonetheless close on 90,000 can be seen as a clear indication of the will to avoid a relapse into resignation. A reliable component here would seem to be the proportion of interest from abroad, annually noted at about 20 percent. The currency rates of exchange may still exercise their influence; nonetheless, the purchasing potential should not be forgotten of those to whom "Made in Germany" still offers a quality guarantee and for whom it is obvious that the Frankfurt Spring Fair offers a complete view of the world's entire range of offers. There was the traditionally strong representation from the European neighbors from the Netherlands, Switzerland and France, ahead of Italy, Belgium and Great Britain. Japan, the USA and Israel provided the strongest contingents from outside Europe, with a notable interest being shown from South Africa and Lebanon, as well as the oil countries of Saudi Arabia, Venezuela and Kuwait.

The foreign participants registered a better response in their business with German partners (64%); at a level of 76 percent of satisfied exhibitors, contacts with third countries were given a significantly better rating.

The "price question" had already generally been clarified prior to the Fair and only exceeded the forecast margin of up to 8 percent in a few topical cases. Although the demands were first raised in the course of sales talks on the exhibition stands, in the prevailing and pleasant atmosphere of rational calm at the Spring Fair, these did not give rise to lengthier discussion. This was not always true if the product presented failed to be completely convincing; run-away articles in the peak price category only met with individual customers if they were to be seen as "extraordinary exclusive", and thus to be counted among the articles which will always find a small circle of purchasers, whatever the general economic situation.

### Heimtextil '82

The Heimtextil, Frankfurt's International Trade Fair for Home and Household Textiles and "world market for a human sense of comfort", has once again been able to contribute to the well-being of the branches involved. Without creating any illusions, the Fair has lessened the fears which had evolved in the second half of 1981, boosting the expectation of a stabilization in sales in the year which has just begun. The actual number of visitors from the specialist trade demonstrates a firm trend, despite efforts being made to save on travel expenses. The decision to make a visit to the Fair is unaffected by changes in temperature, with a lively and by no means merely platonic interest in all that is new or has been subject to further development.

Orders were placed for everything which responded to the private consumer's preferences as well as the trend in demand for larger projects — namely for the Fair offer with a special identity (as part of year-round routine work standard articles have to take a back seat at the Fair). This gave rise to the satisfaction of the overwhelming majority of exhibitors, which was registered by 87% of foreign exhibitors and 85% of the German exhibitors. The variations from branch to branch are marked, however, and depend to a great degree on the market involved — whether domestic or export. At a level of 93% satisfaction the German carpet manufacturers responded above average regarding the inland market; this market appears to be no less open to offers from the hand-knotted carpet exhibitors, 88% of whom were satisfied with business. This figure amounted to 95% for the bedding exhibitors. The non-German competitors on both sectors reached an equally high level of satisfaction with other countries. The sharpest deviation from this was indicated by 60% of those satisfied among foreign suppliers of deco-fabrics and terry towel articles regarding the German market.

The lively activities of foreign buyers were notably above-average, certainly inspired by the creativity and improved quality reflected by the collections. These buyers accounted for more than 30% of the total of around 60,000 visitors. They came from 74 countries, particularly strong in number from (in this order) Switzerland, France, the Netherlands,

Italy, Belgium, Great Britain, Austria, Sweden, Japan and Spain. Although their busy interest in ordering might be attributable to reasons of quality and design, exchange rate factors too, shifts in demand are also responsible, such as the growing interest in "continental bedding" in countries which other traditional forms of bedclothes. The "Bett-lit-bed" special show, serving as a summarized advance orientation, proved equally appealing to their colleagues from the German trade.

With business at the Fair being more intense than the general situation had given grounds to expect, the price discussion proved to be quite the reverse. The dealers have nothing to give away and certainly not in the way of sales with the new and attractive articles presented at the Fair. As opposed to their reaction with the standards, the dealers make concessions here, not always without cuts, accepting the prices calculated on a justifiable cost basis. The trade is also guided by the motto arising from present consumer behavior — money is too short to spend it on cheap goods.

### Music Fair Frankfurt 1982

On the sounding-board of the Music Fair Frankfurt 1982, business remained harmonious in the midst of times of internationally subdued economic development: this was the outcome of the Trade Fair for Musical Instruments, Orchestral Electronics, Music Accessories, Sheet-Music. After five lively days and a level of trade visitors from 60 countries which was from the outset above that of last year, 85% of the more than 700 exhibitors gave good marks to the Fair activities. It was not the expectations, generally set lower than in 1981, which determined the tone and timbre of the "Fair orchestra", but the unbroken and widely ranging interest in playing music and in the equipment needed for this. The innovatory talent of the branch proved to be an attraction around the world and brought about a good 20% increase to more than 36,000 trade visitors from all over Europe and numerous overseas countries. This Music Fair confirmed once again that Frankfurt is favored for dealings in developments of world-wide significance. ■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# U.S. Subsidiary Growth Through Acquisition

**Alexander R. Lehmann**

In the last 10 years many German and other foreign corporations have established their U.S. manufacturing assembly and distribution bases. As they have become recognized competitors in this country, the U.S. managements of these companies are looking to grow further — by means of comprehensive and goal directed acquisition planning.

I would suggest that the U.S. subsidiary management can double or triple sales and earnings relatively quickly by focusing its planning for acquisitons on the best companies in the business of interest, by assessing the sources of comparative advantage and the quality of earnings of acquisition candidates, and by finding the right vehicles for profitable growth — the ones they can be comfortable with.

If doing the right things sounds like an obvious proposition, it is. But it is not easy to adhere to it. Management and planners often get sidetracked with "opportunities" requiring "quick" decisions. Companies also get caught planning forever. Without proper focus, positive results may prove elusive. For example, a company in the food business had scouted the U.S. for suitable acquisition opportunities for two years. Management was getting discouraged. Numerous proposals from a variety of sources had been considered and rejected. Then a systematic search was agreed to. It yielded 70 privately owned companies which met the investor's principal criteria. Management had never heard of them during the less structured effort. Concentrating on the most attractive firms, several acquisitions have since been made.

A comprehensive search will give management reasonable assurance that no suitable or feasible opportunity has been overlooked. Typically such a search

starts with a fairly large company universe. The smaller the investment contemplated, the larger the number of companies that have to be considered. According to U.S. market profiles, there are about 2,200 companies in the food industry with annual sales of $10 million or more. In other industries the number of potential target companies is similarly large: about 1,700 in machinery, 1,200 in electrical equipment, 900 in property and casualty insurance, and 600 in printing and publishing. Companies with quite different information characteristics complicate the picture in any industry. There are:

- About 9,000 companies whose share are publicly traded;
- The divisions or subsidiaries of larger corporations, sometimes difficult to recognize as participants in a particular industry; and
- More than 4.5 million privately owned firms, usually the bulk of possible candidates.

## Comparative advantage

Selecting acquisition targets intelligently means assessing the source of future comparative advantage. A superior new product record, superior marketing, superior productivity, or superior customer service: What do they mean in the context of how well a company is preparing for its future? Future comparative advantage would stem from the firm's market position, its capital investment record or its R & D capabilities.

*Market position* The first questions any acquirer will ask is, "Is this a good business? What is the company's position?" In all industries there are the leaders that consistently achieve results superior to those marginal participants. Before deciding on acquiring a given firm, the reasons for differences in results need to be understood. For example,

- Leading participants may be investing heavily, following the stragegy of "concentrating on what we do best." The result is a gradual weakening or the elimination of weaker competitors.
- When price cutting is widely practiced, margins are under pressure. Markets for many products have expanded little in real terms. Imports are grabbing available growth.
- Excess capacity in any industry means high fixed costs and little pricing flexibility in an inflationary environment.
- The value/price perceptions of the buyers of a company's product differ vastly from the perceptions of the producer's management.

Thus, the potential acquirer will do well to understand how the key functions in a business are performed, what its really relevant market segments are, and how the competition shapes up.

*Key functions* What must be done exceedingly well to succeed? In magazine publishing, selling advertising space and building circulation are *the* requirements. As important, image, editorial message, and price have to be matched to the type of readership sought. In insurance, the key functions are the assessment of risk

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*Mr. Lehmann, a native of Germany, is president of A.R. Lehmann & Co., a New York City-based consulting firm with focus on developing investment and market entry strategies, and planning acquisitions, joint ventures and divestitures.*

and the investment of premiums. For companies supplying the automotive aftermarket, distribution, that is, wide product availability to maintain high service levels, and inventory management have to function smoothly.

*Market segments* Which are really relevant for future growth? Product or geographic segmentation are seldom if ever very relevant to understanding future opportunities. Many companies could realize more of their business potential if they focused on meeting customer needs instead of their own. They could do better if they recognized the major differences in value or risk perceptions, by importance of customer, or if they followed the growth and decline of distribution channels (in U.S. retailing, there are 12 distinct channels).

*Competition* Successful acquisition searches include, from the start, more than cursory analysis of competitors. The competitive dynamics in most U.S. businesses may absorb or dissipate even major investment before the desired return can be earned. It is thus key to consider acquistion targets from the perspective of their competitors, that is, in terms of how they are positioned and how their prospects are viewed. Again, this is obvious but often it is not done. To illustrate: substantial growth is being projected in the robotics business. Giants like IBM, General Electric, and Westinghouse have entered it. How will they affect the real demand evolution and the profitability of the business?

Understanding the market dynamics — many European acquirers do not — will go a long way to figuring out where and how the foreign investor or new entrant would fit. The make or break issues can be identified early and related to an acquirer's objectives.

**Capital investment** The recently passed U.S. tax legislation will help to change the country's relative obsolescence of industrial plant and transportation stock. Average age of plant and equipment is some 17 years, compared to 12 in West Germany and 10 in Japan. As to any acquisition target: projected capital investments will correlate with management's thinking about the future prospects of its business. Major jumps in capital investments may point to unusual opportunity or need. If these investments are made in the framework of sound competitive analysis and if the company's cash flow permits maintaining a debt/equity ratio of about 50 percent, the stage may well be set for very attractive future growth.

**R & D capabilities** In the last three years, about two percent of sales of all U.S. industry, or an average of $1,830 per employee, was spent for R & D activities. However, there are huge spending differences by company in any industry. In 1980, the drug maker with the highest R & D expenditure spent about seven times more than the company with the lowest expenditure. Underfunding research cannot but result in an undramatic list of new products.

| Industry | Average Per Employee | Percent of Sales |
|---|---|---|
| Information Processing | | |
| Computers | $3,979 | 6.4% |
| Peripherals | 3,060 | 5.9 |
| Drugs | 3,466 | 4.9 |
| Automotive | | |
| Cars, trucks | 3,264 | 4.0 |
| Aerospace | 3,026 | 4.5 |
| Leisure time products | 2,879 | 2.7 |
| Office equipment | 2,659 | 4.3 |

*Source:* Business Week, *July, 1981.*

Many U.S. companies are taking a longer term approach to maintaining their technology position or new product development function. Based on recently published data from leading U.S. companies, the technological competition is intense. R & D budgets are growing at over 20 percent annually.

## The quality of earnings

A firm in the medical computer service business had a very attractive earnings growth record when a large company considered it for acquisition. It appeared to be a first-rate candidate. However, there was a major problem. The company had neglected its new product development function, a large competitor had begun to offer a much more efficient service substitute, and new orders had begun to fall off. The acquisition was not made.

Naturally, every buyer wants to acquire an above average performer in its industry. Yardsticks of past management performance by the principal competitors in broadly defined industries are available except when the product category of interest is defined narrowly. Then indicators specific to that narrow definition have to be developed. Average measures like net income margins, earnings growth, and margin stability are tools for spotting real investment opportunities. Most often, however, they will only be the beginning in predicting the quality of future earnings.

*Net income margins* Over time, margins indicate how well management is in control of a company's fortunes. Here is a comparison of the net income medians in 1975 and 1981, both recession years, in a few industries:

| | Net income margin 1975 | 1981 |
|---|---|---|
| Toiletries and Cosmetics | | |
| Health care | 7.7% | 7.1% |
| Ethical drugs | 8.0 | 6.3 |
| Coal | 10.7 | 8.5 |
| Mining and drilling equipment | 11.6 | 1.2 |
| Food distributors | 8.3 | 10.5 |
| Telecommunications | 1.2 | 0.8 |
| Publishing | 9.2 | 10.3 |
| All U.S. industry | 5.1 | 6.2 |
| | Not available | 4.5 |

*Source:* Forbes, *January 1976 and 1982.*

*Growth* On the surface, many U.S. companies continue to achieve excellent results. However, reported earnings are often distorted. By Wall Street standards and expectations, average real earnings growth rates are mediocre in many industries. Reporting is based on traditional financial accounting and not adjusted for inflation.

In searching for the right acquisition, it clearly helps to define the overall growth environment in a business. Forbes recently published measures of sales and earnings growth for the median ranking public companies in a number of U.S. industry groups.

In another survey over 500 privately owned companies whose sales have more than tripled in the past five years were identified. Smaller firms, of course, frequently outpace their larger competitors simply because they grow from a smaller base. They may be successful in highly fragmented businesses, in high growth niches that giants do not pay too much attention to, or they may be strong in a rapidly growing region of the country. Among them will be many that are aggressive high technology start-ups with valuable patent know-how and proprietary products creating new markets. Naturally, in any comprehensive search these companies will be considered carefully.

*Stability* The uninterrupted growth of earnings and the consistency of margins on revenues, coupled with dividend increases, are of course the results obtained by quality management. While difficult to achieve, they are critically important measures in searching for the best possi-

A recent survey of 65 U.S. industrial corporations focused on how management feels about playing the international competitive game and how market and other changes worldwide affect future investment priorities. These issues were of most concern:

- How to set flexible investment criteria without inadvertently giving other players in international markets a competitive advantage?
- How to compete with companies that are structurally quite different from U.S. businesses? How to find the best possible balance between the need for short-term earnings and for long-term international strategies?
- How to focus international investment on the most promising (long-term) markets?

The most serious competitive challenge was seen as coming from the Japanese. International business is of course their lifeline, as it is for the Europeans. For many if not most U.S. corporations this is hardly so, and on balance they find their best investment opportunities right here in this huge and largely homogeneous marketplace. The clear majority of the businessmen participating in the study favored investment in the U.S. — where the comfort level is highest and the risk/reward ratio is perceived to be the best.

The wave of foreign investment in this country during the last decade of course confirms this view, as does the new U.S. tax legislation — which will help many seize available opportunities or replace obsolete production facilities. In the same breath, the attraction of the U.S. will also make it harder for those executives leading their companies' international operations to demonstrate comparatively higher returns overseas. More often than not these international executives have to engage in intense internal competition for support and investment funds. Boardroom attitudes toward international investment are often negative, international investment planning is fraught with pitfalls, and future international investment strategy will be harder to get approved and implemented. On the other hand, the driving forces for new international investment are strong in many businesses. This is true particularly in those companies that are building their future on the microprocessor or which are in the forefront of robotics, telecommunications, or the office of the future. New technologies obviously translate into new markets, and U.S. businessmen know how to do the translation better than most of their competitors. With the U.S. dollar projected to continue strong, exports are not expected to help secure market share longer term, and with creeping protectionism almost everywhere, U.S. businessmen think in terms of investing abroad. But much attention will have to be paid to where these new markets are and how well investment fundamentals can be met by them.

In planning for new international investment, the past obviously will not be a useful guide. Most respondents in the survey were most concerned about how political and social instabilities, competitive instability, and continuing wide differentials in unit labor costs and productivity growth, by country, influence the all-important projection of investment results. In the next five to ten years, they see most U.S. investment flowing toward the rapidly growing markets of the Pacific Basin, with Western Europe and Latin America strong second priorities. A.R.L.

| | *Growth (5-year Average, Percent)* | |
|---|---|---|
| *Best Performers* | *Sales* | *Earnings per Share* |
| Broadcasting | 14.3% | 23.7% |
| Health care | 20.2 | 21.8 |
| Electronics | 17.9 | 21.6 |
| Computers | 23.0 | 21.3 |
| Insurance | 14.4 | 18.9 |
| *Worst Performers* | | |
| Electric Utilities | 15.8 | 2.7 |
| Steel | 10.4 | 4.9 |
| Autos and trucks | 12.1 | 7.2 |
| Telecommunications | 11.6 | 8.2 |
| Beverages | 12.2 | 9.3 |

*Source:* Forbes, *January, 1982*

ble acquisitions. Margin stability points to

- the ability to protect position in the marketplace and to pricing flexibility,
- management skilled in problem situations (contingency plans are probably in place), and
- staff motivated to achieve the objectives set by management.

Dividends paid out reflect the collective judgment of the company's board of directors regarding the company's longer term future and its ability to sustain earnings sufficient to satisfy growth and reinvestment needs.

Given measures for valid comparison, it is clear that income margins, growth and stability whenever they come together in a particular buy situation will be part of the fundamental considerations of the prudent investor.

## Action with confidence

Last year, about $80 billion were spent for the acquisition of some 2,200 businesses in the U.S. This is the evidence of an ongoing and massive restructuring of American industry. It is also the result of a long stock market slump which permits those seeking U.S. business growth to achieve their objectives faster and cheaper by acquiring rather than by building their own manufacturing and distribution facilities.

With continuing high interest rates and the new U.S. tax legislation, many tantalizing "opportunities" will be available. A thorough search which considers those feasible in light of available capital resources is a major step on the road to making successful acquisitions in the U.S. If the planning effort is focused on business fundamentals like the sources of comparative advantage and the quality of earnings, the right vehicle for meaningful U.S. business growth will be found. Management will be comfortable with making the move and have all the opportunity it can handle. ■

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I certify that the statements made by me above are correct and complete.

Richard Jacob
*Editor*

# BMW. ONE OF THE FEW CAR COMPANIES NOT CURRENTLY INTRODUCING IMITATION BMW'S.

The annual new-car introductions have ushered in cars so strongly resembling BMW's as to suggest new meaning for the term "coincidence."

And a good many of these newcomers claim to perform "like" a BMW.

This sudden enthusiasm for BMW-like performance is rather amusing.

Because while it's possible to develop enthusiasm virtually overnight, the development of engineering takes considerably longer—a fact that's amply demonstrated by the BMW 320i.

THE BMW 320i VS. UNREASONABLE FACSIMILES.

The 320i is engineered according to a belief that hasn't changed for decades.

Namely, that performance is, and will always be, the ultimate measure of a car's worth—a belief that permits a car to grow by gradual refinement, instead of hasty responses to changing fashions.

The current preference for leaner, more efficient engines, for example, has caused no radical reshuffling of priorities at BMW. The 320i is powered by a 1.8-liter engine equipped with K-Jetronic fuel injection—and has been for years.

Nor has the 320i needed any instant re-engineering to deliver better mileage. It delivers an EPA-estimated 25 mpg, 36 mpg highway, figures that would be respectable even in an economy car.

(Fuel efficiency figures are for comparison purposes only. Your actual mileage may vary, depending on speed, weather and trip length. Your actual highway mileage will most likely be lower.)

In fact, despite all the flurry of emulation, the 320i—with its fully independent suspension, precise steering, and decades of technological refinements bred on racecourses—remains unique.

So much so as to awaken an almost unseemly ardor in automotive critics who are implacable for a living.

One nominates the 320i as "the sort of car enthusiasts turn into legend." He might have added that there are no reasonable facsimiles for legends.

INVEST IN AN ORIGINAL INSTEAD OF A REPRODUCTION.

Originals generally bring their owners higher prices than reproductions. Which could help account for the following:

According to the January 1982 NADA Used-Car Guide, while the value of other cars was dwindling considerably, the average 320i sold over the past 3 years retained a phenomenal 96.9% of its original price.

All things considered, the appearance of so many BMW surrogates is perfectly understandable.

If you suspect you might not be content to spend the next several years with a surrogate, we suggest you contact your nearest BMW dealer for a test drive.

**THE ULTIMATE DRIVING MACHINE.**

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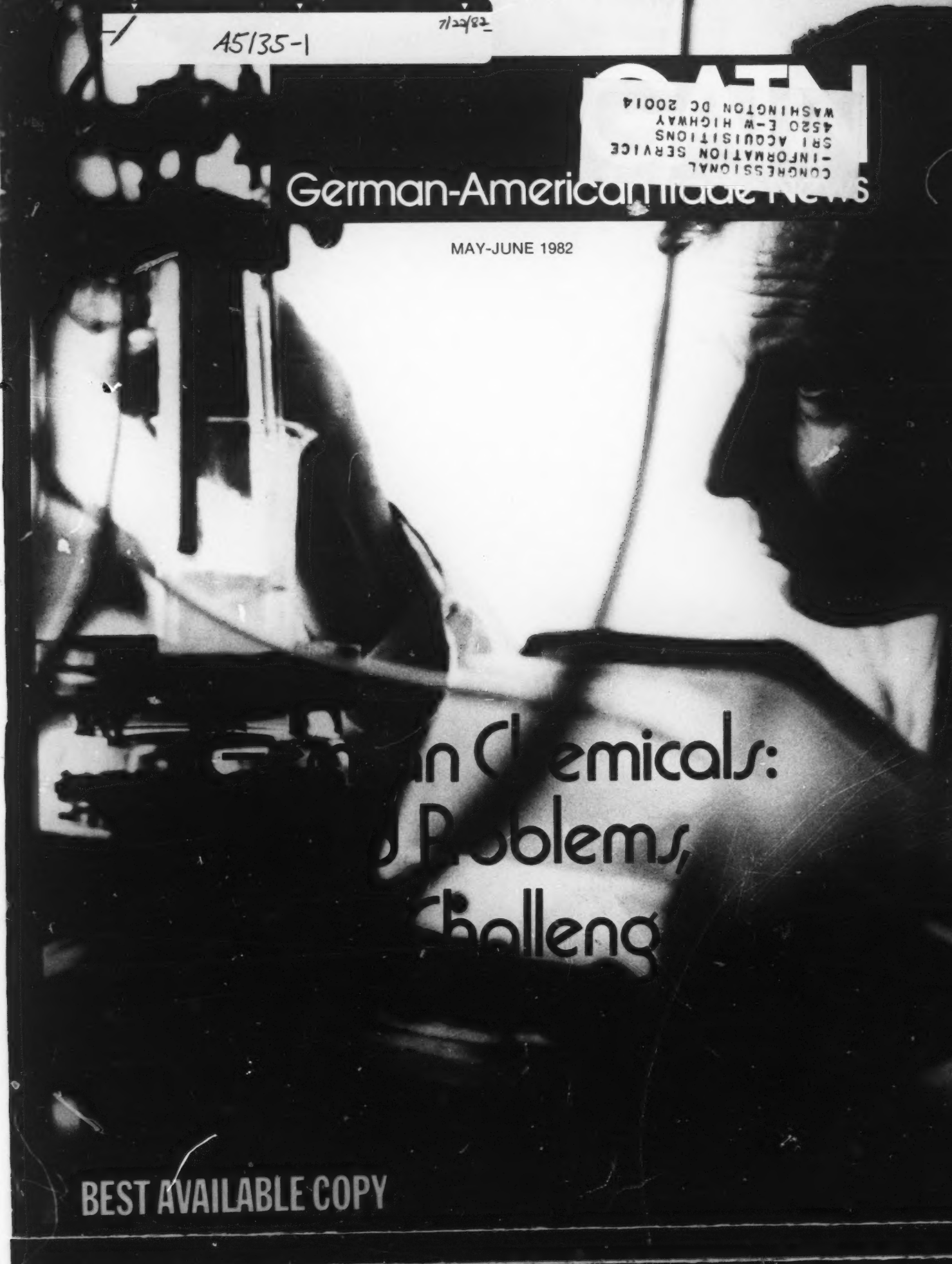

# n Chemicals: Problems, Challeng

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# If you pride yourself on running an efficient company, you should pride yourself on running an efficient company car.

**Bring a Mercedes-Benz 300SD Turbodiesel Sedan into the firm. It is both a waste-hating diesel and a turbocharged diesel of vivid performance. It affords presidential comfort, minus limousine bulk. And its record of retained value is music to a Treasurer's ears.**

Does your space-age company still run a car whose thinking dates from the tailfin era?

The fact is that inefficient operation, excessive size and savage depreciation need *not* define today's corporate flagship. The 300SD Turbodiesel fuses 1980s technology with Mercedes-Benz rationality to create an infinitely saner equation.

### No elephantine excesses

Five adults will find themselves extremely well cared for aboard the 300SD. Its interior is almost 109 cu. ft. worth of first-class repose, fitted with only first-class amenities. The 15.16-cu. ft. trunk seems almost oversized.

Yet so disciplined is its design that the car is only 202.6 inches long, with a 39-ft. turning circle. At 3780 lbs., it is neither overweight nor underweight but athletically trim. (Its welded unit body makes use of esoteric high-strength, lightweight steels.)

Such basic efficiencies permit the efficiency of a diesel engine only *three liters* in size. It is not a ponderous V-8 but an in-line five–and such a light drinker that a fuel cost of about $397 per annum is conceivable, based on 10,000 miles' driving, current average diesel fuel prices of $1.31 per gallon, and a 33 mpg EPA highway mileage figure.* (City mpg 27 EPA.)

*Imagine:* a corporate car you can fuel for a year at about the cost of a one-way New York to Phoenix First Class airline fare.

So sanguine is Mercedes-Benz about its reliability that the 300SD comes with a warranty of 36 months or 36,000 miles.**

This dogged, frugal diesel is meanwhile the most *powerful* such engine yet placed in a production automobile.

Old images of "diesel lag" are obliterated in a turbinelike rush of energy and brisk acceleration, generated by a built-in turbocharger. (If you miss an appointment or a plane, you can't blame your 300SD.)

### Not for boulevards only

If the 300SD doesn't perform like the usual diesel, neither does it handle like the usual limousine in the clutch.

Mercedes-Benz, refreshingly, assumes that even company presidents must sometimes face switchback curves, slippery spots and potholes. The 300SD is girded for such adversity: its fully independent suspension, zero-offset steering and forged light-alloy wheels may be less showy than opera windows or carriage lamps. But more useful, more often.

There is no real need for a company driver to pilot the 300SD. Its acute precision of response makes it deeply pleasurable to drive, across town or across country. A "driver's car," defined. For instance, note that its crisp four-speed automatic gearbox can also be shifted by hand.

### 120 safety features

Passengers are hardly ignored. Twin reading lamps are recessed in the rear of the cabin. There is even a separate ventilation console to serve the rear-seat occupants. The complement of standard features includes electronic cruise control, electric window lifts and front-seat adjustment, AM/FM stereo radio/cassette player with four speakers, and trimming in genuine hand-finished woods. No fewer than 120 individual safety features are also standard.

The 300SD's history of value retention outstrips that of any luxury sedan extant. In fact, the February 1982 *N.A.D.A. Official Used Car Guide* discloses an average retained value for the 300SD, over the past three years, of 88 percent. This helps place its $37,000† price in proper perspective.

### A persuasive statement

There is one final argument for bringing a Mercedes-Benz 300SD Turbodiesel Sedan into the firm. While efficiently serving the firm, it serves also as a fine advertisement–identifying your company as progressive-minded, and sensible, and shrewd. What limousine has ever made a statement quite like that?

*EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. ** This is of course a limited warranty; you should consult your authorized Mercedes-Benz dealer for full details. †Approximate suggested advertised delivered price at port of entry.

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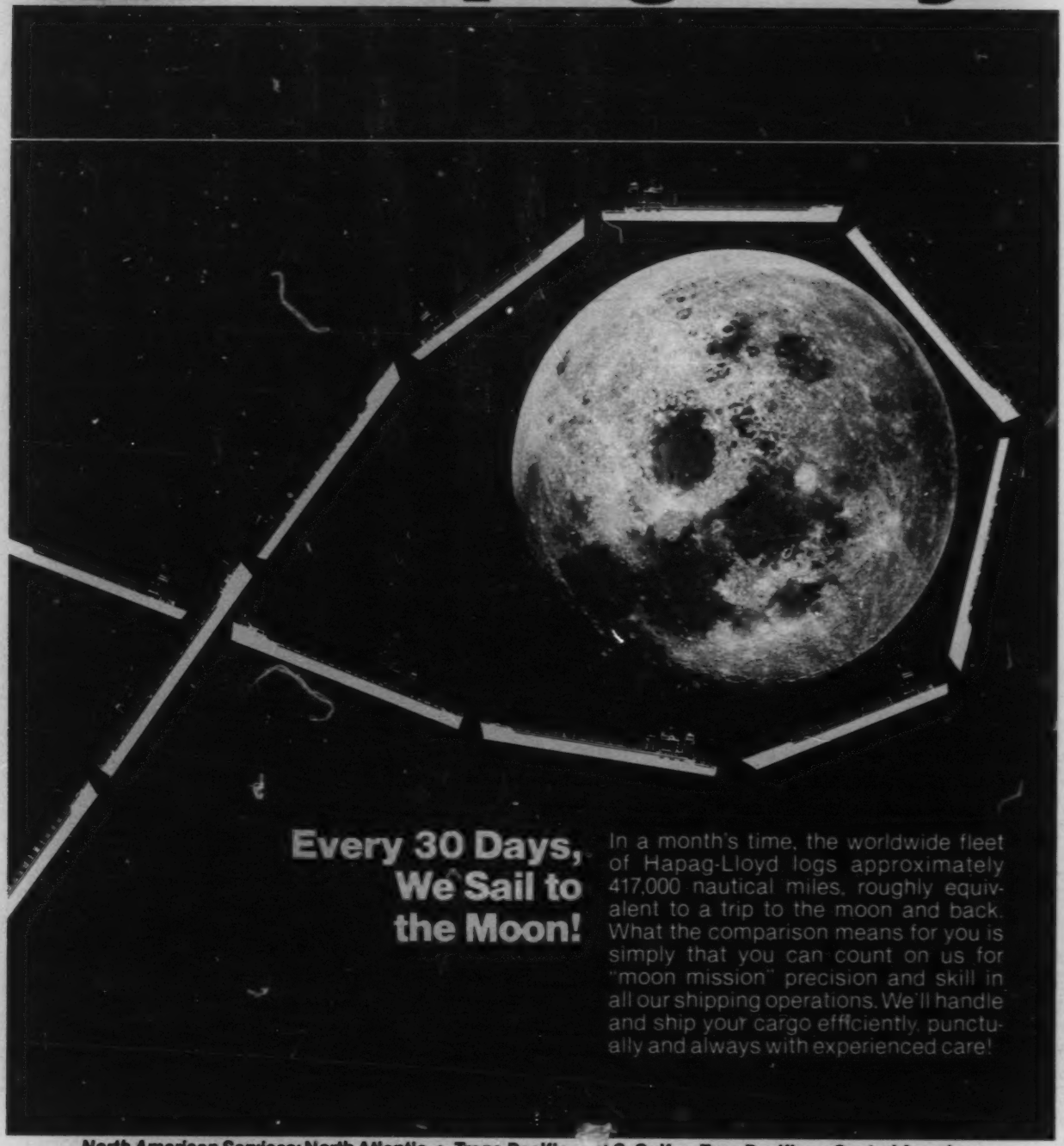
**Engineered like no other car in the world**

◀ *Efficiency meets efficiency: The Mercedes-Benz 300SD Turbodiesel Sedan and the advanced twin-turbine Lear Fan business aircraft.*

# Hapag-Lloyd



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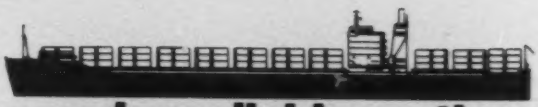

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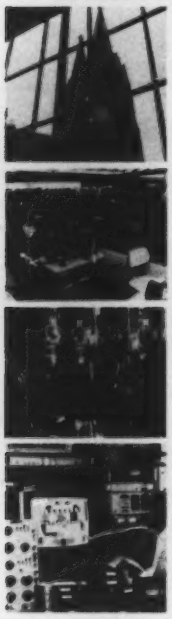


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# Chamber Commentary

## Down from the summit

It is now virtually a matter of record that European Community irritation at U.S. economic policies has reached a new peak. It is especially worrisome that disagreements and recriminations have, if anything, grown more acerbic since the Versailles summit.

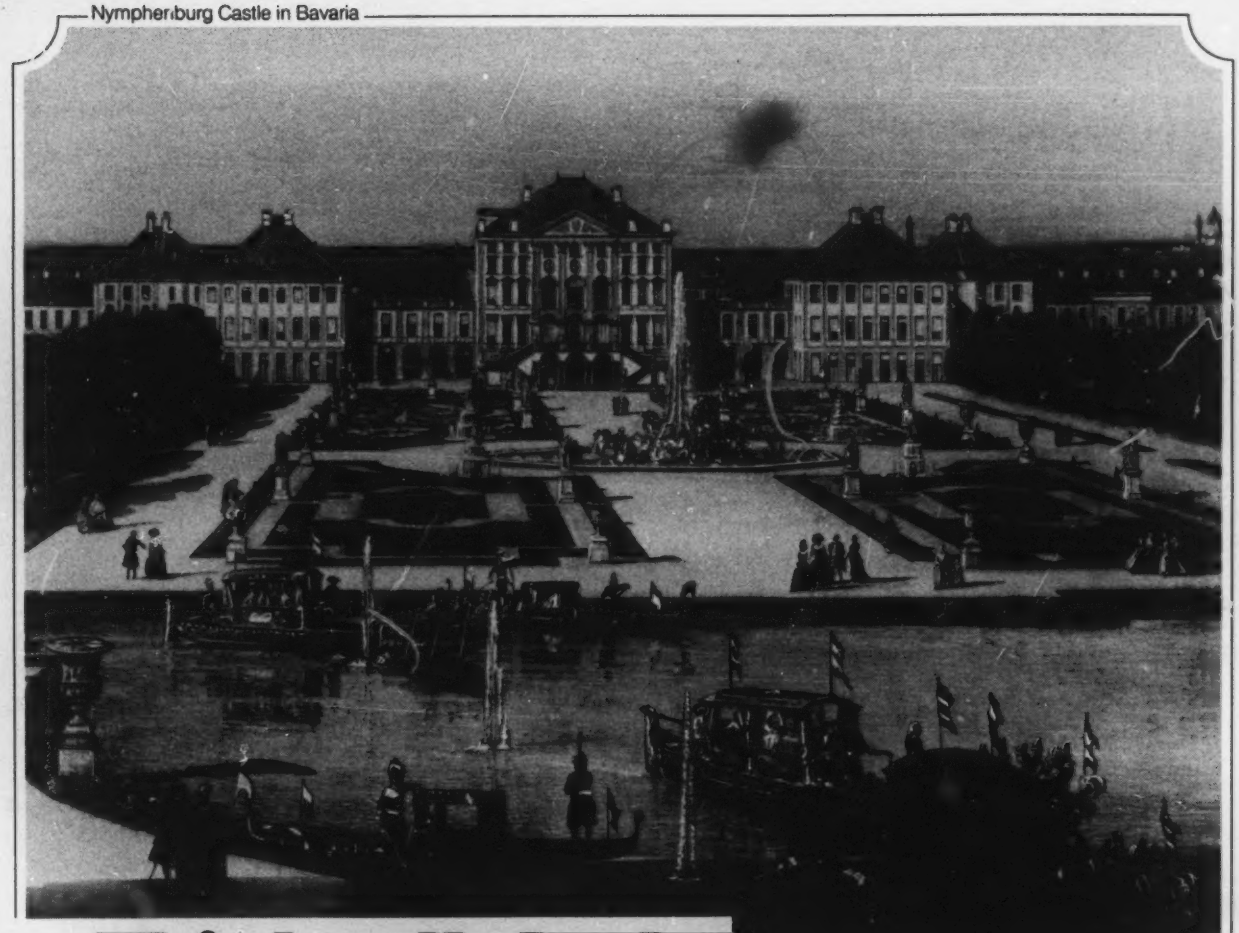
All of the pomp and circumstance attending this annual ritual could not disguise the fact that the meeting is largely symbolic, with the policy agreements hammered out well in advance by teams of advisers. This is not meant to apply a cynical brushstroke to the summits or to the concept itself. But illusion is no ally of progress and there have been all too many misconceptions since the first meeting in Rambouillet about what these can and ought to accomplish. As in every sphere of national politics, the leaders provide directions, while execution is the prerogative of subordinates.

Unfortunately, in today's complex societies even coordination on the scale originally envisaged is more a grand illusion than a grand design. It is manifestly true that the industrial West has mutual interests and goals of overriding importance. It has become equally manifest that shared interests do not necessary equate with shared perceptions of the problems or their solutions. Quite apart from differences in the severity of unemployment in, say, Germany and Great Britain, or inflation in the U.S. and France, the interdependence of our economies virtually ensures that countermeasures in one nation will catalyze some unintended effect in another.

That, of course, covers only the macroeconomic aspects of coordination. Over the past six months more irritants have intruded on the scene. Subsidies for EC food exports have been attacked by Washington. The EC for its part has been angered by the Commerce Department's decision to level countervailing duties against European steel imports and subsequently by President Reagan's extension of the embargo to technology licenses for the Soviet gas pipeline.

Coming against a backdrop of growing unemployment and uncertainty about the timing and vigor of economic recovery, these arguments could take on a life of their own well out of proportion to the principles involved or the alleged damages. Summits do not solve these types of problems, but cool heads and rational dialogue would help.

Nymphenburg Castle in Bavaria



# This hardly looks like the hub of an international financial network.

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# Trade Fairs

### Photokina 1982

The German Radio and Television Trade Association — the DRFFV — is preparing a special video guide to be used by association members when visiting photokina in Cologne in October this year. It is being done to help dealers cope with the often bewildering array of video equipment on display in Cologne from 6th to 12th October this year. The video guide also illustrates the growing importance that photokina has for the radio and television trade in general.

The German Radio and Television Trade Association represents 6000 radio and television dealers across the country who have a joint annual turnover of DM 7.2 billion. This represents 65 percent of the total turnover in consumer goods in the home electronics sector.

According to the DRFFV, the relatively young home video sector is now making up a sizeable share of the turnover achieved by the radio and television trade in West Germany. Specialized trade outlets account for roughly 70 percent of sales of highly technical products like video recorders, etc. 150,000 video recorders were sold on the West German home market in 1979. Sales figures went up to 400,000 in 1980. Last year, the number of video recorders sold in West Germany touched the 790,000 mark. In other words, sales of video recorders almost doubled. Estimates put the total market volume in 1981 in the entertainment electronics field at around DM 12.4 billion. This means that the video recorder sector has managed to corner 12 to 14 percent of the overall market. 86,000 video cameras were sold in 1981. (These are classified as hardware in the trade.) These figures do not include the whole of the accessory field, i.e., tripods, lighting equipment and carrying cases, which will be on display in their entirety at photokina 1982.

Special interest on the video scene is being paid to the 'follow-up' business created by video software. Estimates for 1980 from DRFFV sources show a total of 4 million blank cassettes and 315,000 video films sold. Estimates for 1981 from the Radio and Television Trade Association quote 9 million, 400,000 blank cassettes and 315,000 video films sold. Estimates for 1981 from the programs sold and 2,900,000 rentals.

### INTERZUM Cologne 1983

New advances and prospects in furniture manufacture, interior design, property renewals and in the home construction field are what trade visitors have come to expect from the biennial International trade Fair for Furniture Production, Interior Design and Soft Furnishings — Upholstery Machinery, or INTERZUM for short.

This event is now the leading international trade fair or component fair for the entire furnishing and interior design sector. Held for the first time in 1959, when 225 exhibitors presented their product ranges, it attracted 1,123 firms from 48 countries to the last event in 1981.

The good results of the last trade fair furnished further evidence that the INTERZUM, as international venue for its sector, attracts highly qualified experts of high standing. This applies equally to the furniture and upholstery industry, to the wood and plastics processing industry, to joiners, floor and parquetry layers, painters and varnishers, architects, interior designers and decorators, to stylists and dealers. The gratifying course of business was due not least to the new improved hall concept and to the product range with its even more marked international flavour.

In all, the INTERZUM Cologne 1983 will occupy Halls 10, 12, 13 and 14, covering a gross display area of 103,000 sq m, i.e., 37.5 percent more than the exhibition space at the 1981 event.

### SPOGA 1982

The riding products most popular with buyers are high-quality ones along traditional lines. Despite the present

economic situation, prices are not the determining factor. These criteria characterized the business done at last year's SPOGA, and they are equally valid for this year's SPOGA in Cologne from Sunday 5 to Tuesday 7 September. According to the registrations received from exhibitors so far, it is virtually certain that the Riding Centre at SPOGA 1982 will again be the world's leading event of its kind.

In 1981, 176 companies from 18 countries presented riding habits and boots, equipment and accessories in the Riding Centre, thus making it the most comprehensive international display in the riding sector. Dealers from 29 countries specializing in equipment for riding and harness racing came to SPOGA to obtain information and place orders. Most of them came from the Federal Republic of Germany, the Netherlands, Scandinavia, France and Britain. There was also, however, an increasing number from New Zealand, Australia, South Africa, the United States and Eastern bloc countries. There are numerous reasons for coming to Cologne to inspect the riding market, the main one being as follows: Manufacturers of equipment for riders and their horses have to cope with a problem that does not appear to be conducive to the expansion of production: Riders are very traditionalistic in their outlook, they adhere to established items. Obviously, they have their reasons for doing so.

## IMB 1982

The International Clothing Machine Fair — IMB — which came to an end on Saturday, 22nd May 1982, provided indications of an upturn in economic activity. A brisk flow of visitors keen to approach exhibitors and gather information was noted on each of the 5 days of the fair. This confirmed the view expressed by leading spokesmen for the industry that decisions on capital goods purchase are basically taken in Cologne. Besides immediate orders being placed, the interest and preliminary negotiations seen at the fair suggest that a considerable volume of business will follow.

The event was the largest ever, featuring a record number of 450 exhibitors from 28 countries and attracting a total of 28,700 trade visitors from 80 countries world-wide. 16,100 of these came from abroad, making up 56% of the total attendance figures. Total attendance was 2% up on the 1979 IMB.

It was particularly interesting to see that the fair again attracted more trade visitors from overseas and the Far East. The great appeal of the IMB fair as a leading event for innovations was also evident from the large number of organized parties of visitors from 25 countries. Delegations arrived from the People's Republic of China, the Soviet Union, India, Japan, Taiwan, South Korea, Brazil, Canada, the USA and other countries. In addition there were groups of European visitors from Belgium, Denmark, France, the United Kingdom, Italy, Yugoslavia, Finland, the Netherlands, Norway, Austria, Portugal, Switzerland, Sweden and Spain.

The "realist's fair", as the 1982 IMB has been called because it reflects the trend in the clothing technology sector in the difficult world-wide market situation of the 80s, was attended by many trade visitors in highly influential positions. They came from all branches of the clothing industry, ranging from women's outerwear, menswear, working and sports clothing and children's outfitting to the underwear and foundation garments industry and the home furnishings sector. The majority of trade visitors occupy leading positions in their firms. This was shown by a survey conducted for Cologne Trade Fair by IFEP — Marktanalysen GmbH, Cologne. The survey revealed that the IMB was mainly attended by proprietors (23.5%), executive managers (23%), works managers (34.4%) and production engineers (4.9%). 3.2% of the visitors were project managers and departmental heads. Patter-makers, mechanics, buyers and sales staff made up the remaining 11%.

According to spokesmen for the industry, one of the reasons for the gratifying results produced by the International Clothing Machine Fair is the fact that the

market has become so difficult that international competition is forcing all clothing manufacturers to introduce the most efficient and technically sophisticated production methods. Their readiness to invest in streamlining measures led to sales being concluded even at the fair itself. 92.7% of trade visitors stressed that the IMB is a great help to them when it comes to placing orders and reaching decisions.

This year's International Clothing Machine Fair — IMB — was the biggest ever, featuring a record number of 450 firms from 28 countries. The number of exhibitors was almost 15% up on the 1979 IMB, which attracted 392 exhibitors from 19 countries. Besides 204 companies from West Germany and one exhibitor from the GDR there were 345 foreign firms taking part, making up 55% of total participation. This is the first time that more than half the exhibiting firms have come from abroad.

The countries most strongly represented were headed by the USA with 37 exhibiting firms. Then came Japan with 34 and the United Kingdom with 33 exhibitors. 28 firms came from Italy, 22 from Switzerland and 21 from France.


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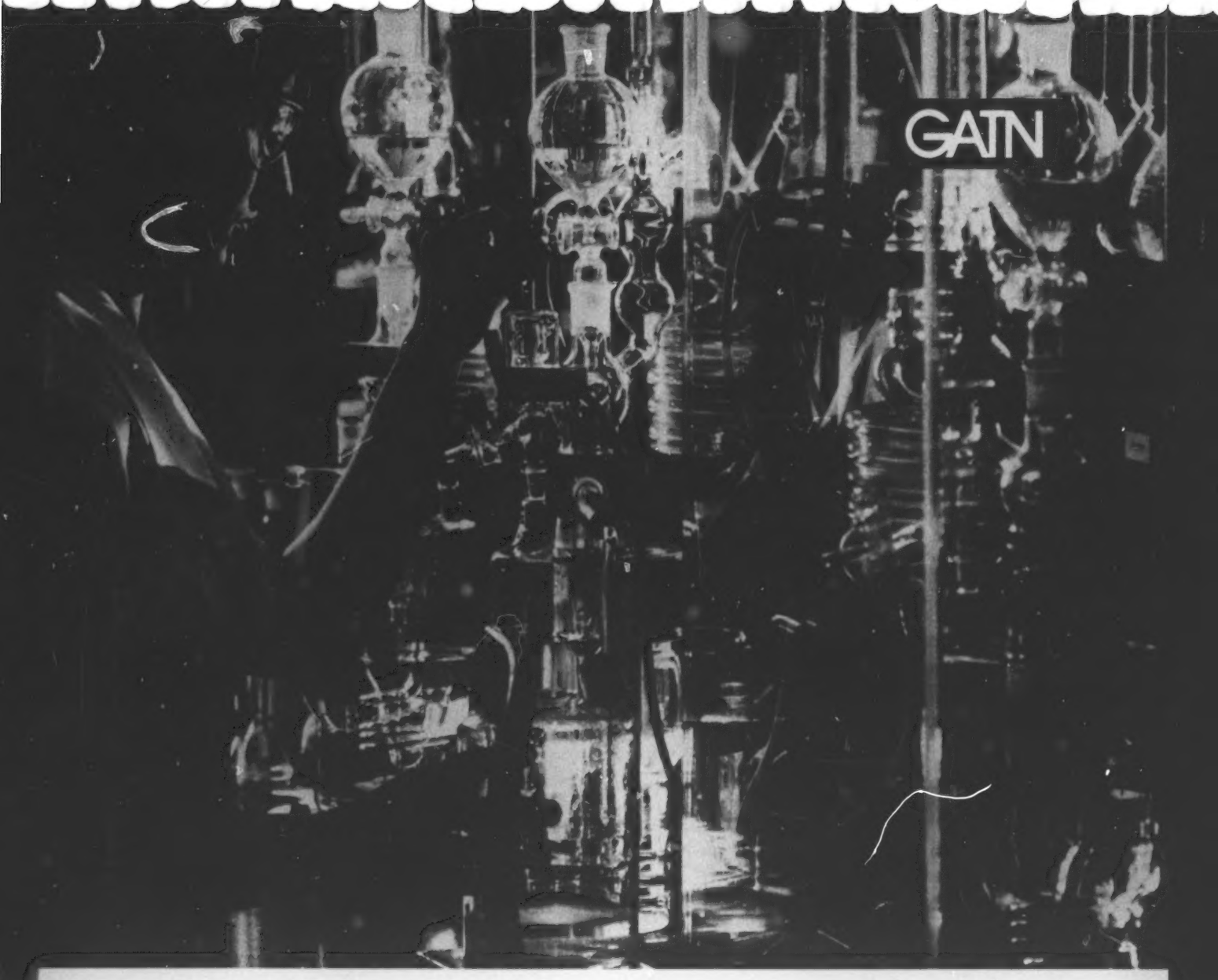



# German Chemicals: Old Problems, New Challenges

A facetious observer might well speculate that Germany's huge chemical industry today should be looking for the mythical philosopher's stone that would magically transform leaden profits into golden ones. Like their counterparts in the rest of Europe and the United States, Germany's chemical companies are bedeviled by a vicious triad of overcapacity, falling demand, and rising oil prices which they have been unable to pass on completely to their customers. In the latter category, of course, the German companies have absolutely no access to low-cost domestic oil or gas from which to create petrochemicals.

At first glance, there is a temptation to draw an analogy with the steel industry. Both are energy-intensive industries on a continent poor in energy and raw materials resources. Like steel, too, the chemical industry is operating under a growing threat from new producers of bulk products in low-wage, resource-rich countries. However tempting, the comparison would be specious. In its universe of technological diversity and broad con-

sumer base, the chemical industry has infinitely more room for adaptability, growth, and resource diversification. Still, the problems are of sufficient magnitude to call many of the traditional axioms of the industry's vigor and limitless horizons into question. Or, in the words of Hans Albers, deputy chairman of BASF's management board, "one could ask whether the chemical industry is still a growth industry."

### Shrinking growth

This gloomy assessment is prompted by several hard facts. The pace of sales, which has been good in nominal terms, has been badly distorted by inflation. Last year, for example, revenues in the German industry rose 8.5 percent to about $51 billion. And in the first quarter of 1982, they were up an additional 4 percent to $13.5 billion. But in 1981, according to German chemical makers, their price index rose 10 percent, which translates into a 1.5 percent decline in physical output. And they believe that the sales increase in the first quarter of this year may also have amounted to a shrinkage in volume output. Worse still, there has been a steady erosion in the German chemical sector's profitability. An expected 1.5 percent net return on sales this year compares with 1.8 percent last year, 2.5 percent in 1979, and 4 percent in 1970.

Germany's chemical executives harbor no illusions that the problem will be temporary. One analyst points out that German chemical industry sales increased a full 43 percent in the four years prior to the oil crisis of 1974 while the chemical price index climbed only 3.5 percent. Since that watershed year, nominal sales have risen 40 percent. However, an increase of 26.7 percent in the price index has reduced real growth to 13.7 percent over this period. In other words, the industry has lagged substantially behind the 16 percent real growth in German gross national product since 1974.

Applied to the German chemical industry, the adjective large has quantitative as well as qualitative connotations. Until DuPont's recent acquisition of Conoco, Germany's three chemical giants — Hoechst, Bayer, and BASF — were also the world's largest. But last year's results were lackluster. Hoechst and Bayer both reported 1981 profits far lower than 1980's: Hoechst had net earnings of $186 million (-23.4 percent) on worldwide sales of $15 billion; Bayer's profits of $225 million were 29.2 percent short of 1980's, on turnover of $14.7 billion; and BASF managed only a 2.2 percent increase in 1981 net to $160 million, despite a 14.6 percent increase in sales to $13.8 billion.

## Chemical Imports and Exports

(billions of DM)

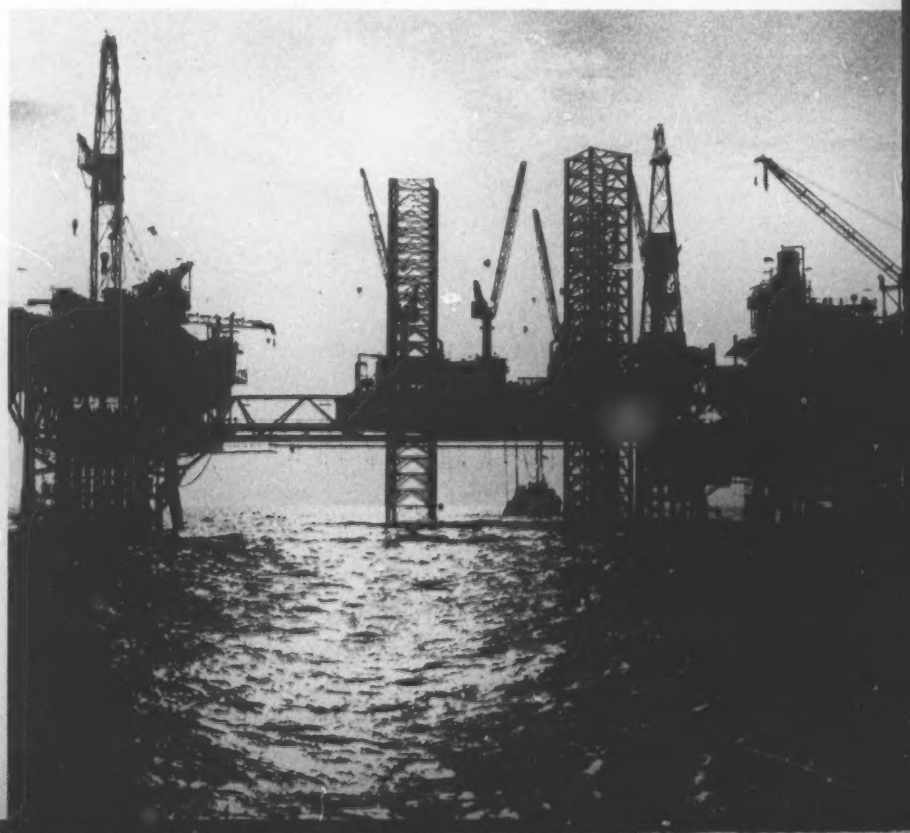
| Country | German Imports from: 1981 | 1980 | % change | German Exports to: 1981 | 1980 | % change |
|---|---|---|---|---|---|---|
| France | 4.92 | 4.53 | 8.5 | 5.78 | 5.22 | 10.9 |
| Benelux | 4.18 | 3.92 | 6.6 | 4.14 | 3.63 | 14.1 |
| Netherlands | 5.86 | 5.11 | 14.5 | 4.75 | 4.36 | 9.0 |
| Italy | 1.69 | 1.53 | 10.3 | 4.89 | 4.45 | 9.8 |
| U.K. | 2.55 | 2.17 | 17.3 | 3.38 | 2.53 | 33.3 |
| Switzerland | 1.78 | 1.63 | 9.4 | 2.50 | 2.44 | 2.7 |
| Austria | 0.89 | 0.73 | 22.8 | 2.36 | 2.23 | 5.9 |
| U.S. | 2.69 | 2.46 | 9.5 | 2.42 | 1.85 | 31.3 |
| **Total** (including all other countries: | 30.11 | 26.50 | 13.6 | 54.00 | 47.34 | 14.1 |

*Source: West German Chemical Industry Association*

To judge from results to date, this year will not be much better. There are, notes BASF president Matthias Seefelder, "only faint hopes for an upturn in the second half." The Bayer Group has reported that its worldwide sales in the first quarter of 1982 were only 4.1 percent higher as compared with an 11.3 percent rise in the corresponding period a year earlier and a 17.1 percent increase for all of 1981. The Hoechst Group's sales were only 5.4 percent above the corresponding 1981 period and only 3.7 percent better than last year's quarterly average.

### Exports buoy sales

Chemical exports last year expanded by almost 15 percent, fueled largely by the price advantage of a weak mark. This achievement more than offset a poor domestic market, where sales dipped by 5 percent. Instead of another plunge in West German chemical production similar to the 4.3 percent drop in 1980, the



sector was able to record a modest rise in output of almost 2 percent. Exports to the United Kingdom jumped by around one-third, to the U.S. by 31 percent, and to japan by 30 percent, among others. Although the West German chemical industry is only fourth in terms of turnover behind the U.S., U.S.S.R., and Japan, it leads the rest of the world in exports. Its dominant position in chemicals trading is also reflected on the import side, where it leads the world list. These imports take a full quarter of the German chemicals market. Germany's major suppliers last year, in order of importance, were the Netherlands, France, the U.S., and Great Britain.

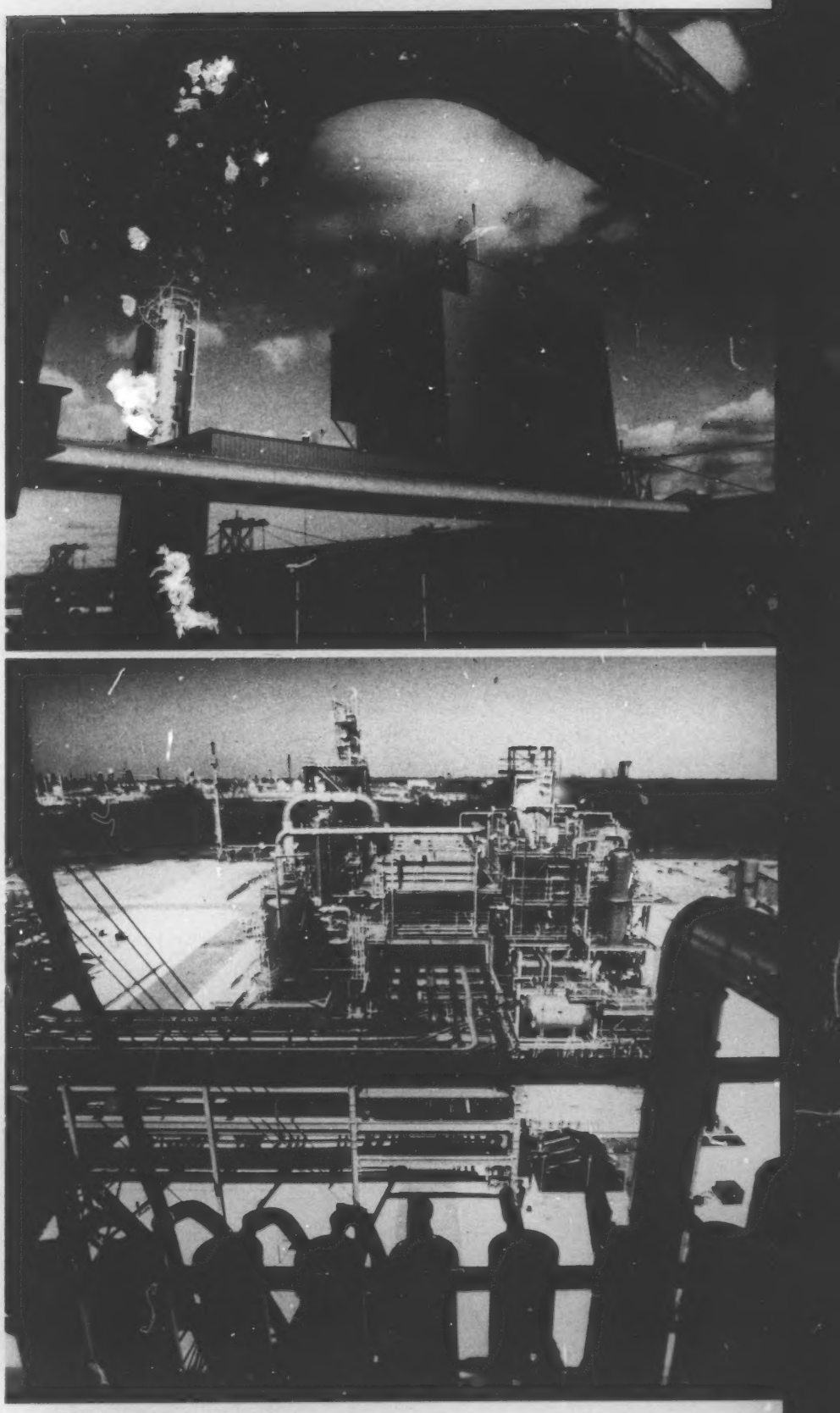
### New strategies

Europe's entire chemical industry is overly dependent on oil for its energy and oil-derived naphtha for its feedstocks. However, Germany's U.S. and European rivals, particularly in the Netherlands and the U.K., depend more on natural gas for their energy and gas-derived ethane for their feedstocks, and thus have not suffered as badly from rising energy and feedstock prices. The German industry's heavy reliance on naptha cannot be reduced quickly and will probably still stand at 75 percent in 1990.

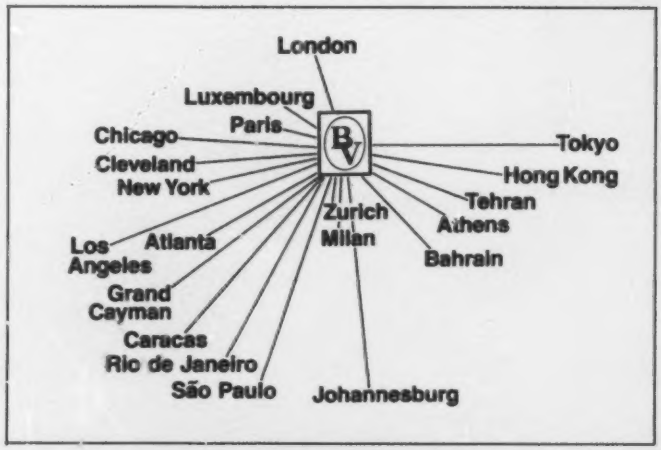
Meanwhile, overcapacity is keeping chemical prices down. Last year, European chemical demand fell by 10 percent, and it is still falling. BASF and Hoechst are now operating many plants at only 60 percent of capacity, 10 percent lower than last year and 15 percent below the level they say they need for efficiency and profitability. Some plants have been shut down and more closures are planned, but this is clearly not the road back to prosperity. To restore their sagging fortunes, the West German chemical giants plan to change the shape of their firms.

BASF is aiming for vertical integration. It wants to find and develop its own sources of oil and gas to run its plants and provide feedstocks. The company started down this path in the 1960's, when it bought the Wintershall Group, which owned several oil refineries. This year it will spend about $87 million on oil and gas exploration, having struck oil in 1981 in offshore Gabon and gas in the Italian Adriatic.

Rival Hoechst is not a believer in vertical integration, preferring to hunt for feedstock bargains from outside suppliers. However, the firm may decrease its dependence on outside raw ma-



# Good results for Bayerische Vereinsbank in 1981




| Bayerische Vereinsbank Group | 31.12.1981 |
|---|---|
| Total Assets | 98,301 |
| Due to Customers and Banks | 38,425 |
| Loans in the Banking Sector | 28,521 |
| Bonds Issued in Long Term Loan Sector | 53,990 |
| Lendings in Long Term Loan Sector | 55,184 |
| Capital Resources | 2,324 |
| Consolidated Profit | 112 |
| | in millions of DM |
| Staff | 12,632 |
| Branches | 478 |

With group assets of just under DM 100 bn Bayerische Vereinsbank is one of the five largest banks in the Federal Republic of Germany.

If you are interested in more detailed information about BV's 1981 results, we shall be pleased to provide you with our Annual Report in German, English or French.

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terials suppliers a bit. It is pushing R&D projects aimed at creating petrochemicals from methanol and coal, which Germany has in abundance.

Bayer is even more wary of vertical integration than Hoechst. While its other two competitors debate the best strategy for cutting costs on price-sensitive bulk chemicals, Bayer has already divested most of its bulk chemical operations. The company is now free to concentrate on high-profit-margin specialty chemicals and plastics. Bayer is not immune to rising costs, with its energy and feedstock costs having risen 50 and 70 percent respectively last year. But the profit margins on specialty chemicals cushion the impact of cost increases. And the firm believes it can do much of the requisite cost-cutting by improving plant efficiency.

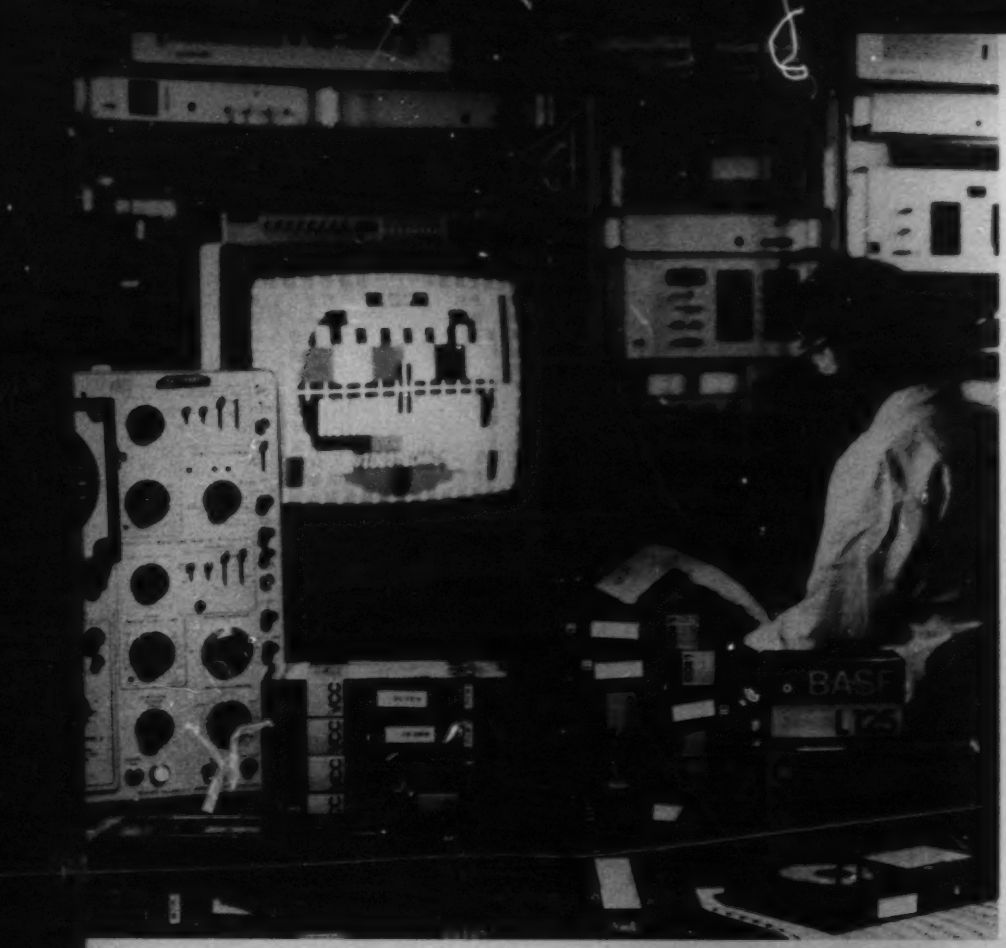
Ultimately, the key to maintaining its strong market position is the German industry's research capacity. It spent approximately 5 percent of last year's revenues on research and development, ranking it as the most heavily research-intensive sector of German industry: in 1981, its expenditures accounted for one-quarter of the total R&D outlays by the entire business sector. This investment is highest in such fields as pharmaceuticals and agricultural chemicals, where something between 12 percent and 20 percent is considered necessary.

This picture is not as promising as these numbers would suggest though. "We use one-quarter of our R&D money just to cope with legislation," says Dr. Ian C. Meerkamp van Embden of the German Chemicals Industry Association (VCI). "Another quarter goes towards keeping the products at a reasonable standard. That leaves only half for true research — or innovation — and that share is consistently declining because of the heavy impact of legislation."

The industry's dominant position in world markets for many classical biochemicals and pharmaceuticals and its conservatism to extreme risk-taking has until now hindered it from pushing into a bold new R&D area — biotechnology. And this may represent to the business in the late 1980's and early 1990's what plastics were in the Seventies. The Germans are just now waking up to the fact that they are seriously lagging behind the U.S. and Japan. The first move to remedy the situation came with Hoechst's investment of $50 million for ten years of basic research at Massachusetts General Hospital, an arm of the Harvard Medical School.

BASF is also moving vigorously. In cooperation with the University of Heidelberg, it is launching a program for basic research and training of young scientists in biotechnology. BASF is also building an ambitious biotechnology laboratory and pilot plant for applied research at its Ludwigshafen headquarters, which is scheduled to open next year.

The Ministry of Research and Technology is currently attempting to stimulate an initiative by pharmaceutical industries in the recombinant DNA area. Both Bayer and Boehringer are involved in DNA re-




Bayer and Hoechst are already powerful in pharmaceuticals and hope to derive much of their future growth from this area. Bayer also looks for expansion in film and photographic products from its Agfa subsidiary and from specialty plastics for the engineering and construction industries.

BASF plans to challenge Bayer directly in specialty plastics, and to carve out a growing profits niche in both audio and video tape.

The problem with all such moves upmarket is that they require time, as do the benefits of R&D and the results of corporate restructuring. In the meantime, cost pressures will continue to mount and a weak global economy will keep capacity utilization below profitable levels in many areas for some time to come. But the chemical industry has traditionally placed a high premium upon innovation, adaptability, and imagination. It has applied these intangible resources in the past and is determined to apply them again. Even as the old problems persist for the next few years, it seems a good bet that they will be superseded by a successful response to the new challenges of today. ■

search, with the latter having spent almost half of its 1980 R&D budget on biochemistry. But other large concerns such as Henkel, Degussa, and Merck have made no public announcement of their intention to investigate these new technologies.

### New markets

Each of the Big Three want to move forward towards specialty chemicals and plastics. And the choice is not necessarily voluntary: Middle Eastern companies are moving into chemicals in a big way, particularly the Saudi Arabians. No matter what kind of bargains western companies may be able to get on feedstocks, they will never be as cheap as those available to Middle Eastern companies. For instance, Saudi Basic Industries Corporation alone plans to produce enough ethylene by 1985 to supply 7 percent of the non-communist world's demand. Energy-conscious Germans estimate that only the Saudis will soon be able to afford to make basic plastics and bulk chemicals. They point out that basic plastics create only $7.30 worth of sales per therm of energy used, while pharmaceuticals, for example, create $12.50 in sales per therm of energy used.

# German Investors in U.S. Negotiations: the Lawyer's Role

**George H. Schenk**

Recent years have seen a dramatic increase in direct foreign investment in the United States. The major part of this increase represents an expansion of business activity by large companies which have been active in the U.S. market for many years. These "old-timers" have normally accumulated a wealth of experience in dealing with their American counterparts and may find nothing surprising in this article.

However, a significant portion of the new German investment and activity in the U.S. is composed of first ventures by middle-sized German enterprises. This stream of new entrants is expected to increase in coming years.

Some new entrants may have heard from their predecessors that special problems exist when one conducts business in the United States. Perhaps they have become familiar with the need to obtain product liability insurance to cover the extravagantly high judgments that many American courts have awarded to injured consumers. They may have been advised about the unusual aspects of American equal opportunity employment laws and, of course, are already sensitized to labor law issues from their German labor experience. Some of them may know to expect more frequent, more frivolous and more expensive law suits from their American customers and business partners. They may have read news articles about American plaintiff's counsel who will accept cases on a contingency basis and allege damages amounting to fantastic sums — because there is no need to post bond to cover the other party's legal fees and no requirement that the loser reimburse the winner for litigation expenses. They may realize that bringing frivolous cases is a not-so-irrational strategy for American plaintiffs because the cost to a German enterprise to defend a case in the United States may exceed the cost of a settlement. This is especially true if one takes into consideration the loss of time for management personnel when they face — for the first time — an American legal procedure called "discovery". This procedure enables the plaintiffs' lawyers to ask the defendants hundreds of questions either at oral, out-of-court "depositions," or by written "interrogatories." They may also demand access to documents which the German entrepreneur would normally consider beyond the reach of "prying outsiders."

These problems and others like them should now be part of the lore which the returning German-American manager passes on to his colleagues. What one sees today is another pattern of problems which the corporate manager of a U.S. subsidiary may not think to mention to his colleagues. The pattern results from errors which the manager may not perceive he has made, which he has forgotten from his early experiences, or which may be more common among managers of smaller, more cost-conscious enterorises. In the hope of preventing newcomers from being "victimized" as some of their compatriots might have been, this article will concentrate on four specific errors in investment and negotiation strategy to which German investors are susceptible in their early encounters with the American business environment.

*Mr. Schenk, a partner in the international law firm of Coudert Brothers, is an American-trained lawyer specializing in representing European investors in the United States.*

### Error 1: Negotiating Without Legal Counsel.

My colleague Prof. Dr. Ernest C. Stiefel, a long-time student of German-American investment, is fond of saying that doing



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business in the United States is like entering a jungle. Just as a smart hunter would not enter a strange jungle without a local guide by his side, a prudent foreign businessman should not try to negotiate in the United States without legal counsel close at hand.

American lawyers are accustomed to accompanying their clients at all stages of a negotiation and generally view their role in much broader terms than do their more traditional European counterparts.

Prior to actual negotiations, legal counsel can assist the German client by informing him about a wide range of issues. These might include (1) United States tax ramifications, (2) anti-trust considerations, (3) Hart-Scott Rodino Act pre-merger notification requirements, (4) securities laws, (5) Department of Commerce foreign investor reporting requirements, (6) other regulatory agency considerations, (7) financing possibilities, and (8) litigation risks.

An American lawyer familiar with German law should also underline the areas where German law and American law differ. For example, he may explain that the Buergerliches Gesetzbuch (BGB) has no U.S. counterparts; that the concept of "Treu und Glauben" plays no significant role in American contractual relationships; that covenants-not-to-compete are frequently unenforceable; and that "Eigentumsvorbehalt" clauses must reflect an entirely different philosophy and mechanism with respect to protection of creditors. American counsel may also anticipate for the German businessman those economic considerations which are likely to be important to the American bargaining partner in the specific context of the proposed deal.

When initial negotiations begin, the German investor may think that having counsel present might over-formalize discussions and therefore impair the development of personal feelings of trust and intimacy between the German businessman and his American counterpart. Reputable American businessmen who are experienced in dealing with foreigners, however, usually recommend that the German investor involve American legal counsel from the outset. The American knows from experience that counsel can help focus issues for the foreign investor and expedite negotiations. All too frequently, however, the German investor will reply by saying "Don't worry, when we get close to agreement we will have everything checked by our American lawyers."

By deferring legal counsel's active involvement, the German investor might think that he and his American counterpart can bargain as equals. Frequently, however, the American negotiator will be actively consulting counsel "behind the scenes." If his company is a large one, it will most likely have "in-house" counsel available for formal planning or strategy meetings, and such counsel will surely be on the circulation list for the American negotiator's memoranda to mananagement. Even without consulting counsel the American businessman, through his experience, knows that he must protect his interests in the highly litigious American environment.

If the American businessman does not advise the German investor to consult legal counsel immediately, this omission should be taken as a sign of warning. Moreover, if the American businessman is European born and bred the danger is doubled. At the time of the negotiations he may deal with the German businessman in total good faith and in much the same manner that he might conduct business were he in Europe. But if the relationship sours, the former European will be just as litigation-minded as his native-born American colleagues and the German investor may not have taken the same precautions in correspondence or documentation which he would have taken in dealing with a native-born American.

In a recent case a German client had entered into an exclusive sales representation agreement for a new product with a small company in the southern United States. The company's German-born manager had been living in the United States for more than ten years. When the agreement was negotiated, the German manufacturer did not consult U.S. counsel. Relying on the knowledge that American law has no direct counterpart to Section 89b (statutory claim for compensation of a terminated sales representative) of the Handelgesetzbuch (HGB), the manufacturer felt that giving the American company an opportunity to prove itself as exclusive sales representative for the southern United States would be a "costless experiment." Then followed numerous attempts by the sales representative to expand the scope of its exclusivity and to import the product on credit as a distributor. The correspondence, particularly the letters sent by the sales representative, left unclear whether the initial agreement had been amended. Moreover, some of the responses by the manufacturer in attempting to confine the representative/distributor's sales territory could have been embarrassing evidence in a treble damages anti-trust action. The manufacturer, who had by now concluded that another American company was far better suited to act as its representative for the entire United States, found itself threatened with litigation by a company which had become a poor representative and a bad debtor.

Ultimately, disengagement from the relationship and the threats of litigation turned the German manufacturer's "costless investment" into an expensive learning experience.

### Error 2: Premature Delivery of Draft Documentation

Bargaining in the initial stages on one's own — as opposed to conducting a negotiation contract without counsel — might be viewed as a minor error on the part of German businessmen. In many instances initial discussions lead to "dead-ends" and it might seem wasteful to pay counsel fees for deals which abort in their early stages. On the other hand, creative legal counsel can often save money by either (1) finding common interests which have been overlooked or (2) discovering the unresolvable problems earlier so that managerial time and expenses are spared.

A major error, however, is delivery of a "made-in-Germany" first draft or draft outline to the other party before having it reviewed by one's own American legal counsel.

What often happens in such cases is that the American parties review the draft with their attorneys. They make a conscious decision to accept the German author's sketchy treatment of certain issues which are normally dealt with in great detail by American contract draftsmen. Trying wherever possible to preserve the German draft's language, the American parties revise the sections of the draft which they perceive are most important to their interests. If the draft contains a clause barring the American parties from certain competitive activities and the clause is written so broadly as to be void or voidable under American anti-trust laws, the Americans will not ask to delete it. If the trademark license covering the German party's trademarks clause does not contain provisions with respect

to quality control, the Americans will not add them, creating a situation where the trademark rights of the German party may be lost. If the draft language is not precise and can be subject to several interpretations, the Americans may still make no change, reasoning that if the contract comes into dispute and if they have succeeded in providing for dispute resolution in the United States, they may have an advantage over the German party.

So the Americans present their counter-draft to the German negotiators and the German negotiators send it to be checked by their American legal counsel, normally instructing their counsel, "Try to make as few changes as possible."

The injunction to avoid massive changes rarely can be followed. Generally there are three kinds of problems which require the counter-draft to be reworked. There are purely legal issues, such as the anti-trust and trademark law pitfalls mentioned above; there are business issues, which the lawyer may identify because of greater familiarity with the American marketplace or because of greater sensitivity to the down-side risks in transactions; and there are ambiguities of wording and discrepancies in style.

When the lawyer's comments are presented to the American party, the latter will not object to revisions which relate to obvious misunderstandings of American law or to language changes which clarify the parties' mutual intent. But when these changes result in reallocations of business risks, or if the German investor starts re-negotiating business terms, the American party or its lawyers will complain loudly about "wasted time," "changing the deal," "bad faith," and so on. Much of this complaining is mere theater to obtain a bargaining advantage, but some may be justified — particularly if the American negotiator must explain to his corporation's management that the deal will be significantly changed or delayed. The ill-feeling which results from such situations has gotten many a promising joint enterprise off to a shaky start.

If the American negotiators are particularly clever, they will refrain from blaming their potential German business partner and try to shift the onus for the new frictions onto the German party's lawyer. If they intimidate the lawyer or drive a wedge between him and his client, they improve their bargaining position. If this strategy fails in its prime objective, it may still succeed in placing the German side on the defensive.

Such problems can easily be avoided by consulting American counsel before exchanging any draft contracts or letters of intent. Indeed, early consultation may save considerable amounts in legal fees if American counsel has in his files contracts from similar types of transactions involving other clients which he can tailor to fit the new investor's situation. Most lawyers find it more efficient to develop documents from their own forms than to analyze and revise the first drafts presented by the other side. The German client should try to keep this advantage for his lawyer.

### Error 3: Insufficient Time and Patience for Detailed Negotiations.

The manager of a middle-sized German company usually has a broad range of responsibilities. His schedule is crowded and time is valuable. Today he may be in Stuttgart, tomorrow in Kiel and next week in Tokyo or Lagos. Even if he has avoided Errors 1 and 2 by consulting his lawyer early and involving him in preparation of the first drafts of the documentation, the German manager may still fall victim to Error 3: impatience. He does not expect to sit thgough hours of detailed discussion of contract wording and is generally appalled at the thick, complicated contracts which Americans seem to favor. He believes that once businessmen agree on the major issues, lawyers can be left to work out the details. He structures the negotiation to deal with large, conceptual issues first and when these have been resolved, he wants to move forward toward his next negotiation.

The American businessman in the same situation would also believe that the detailed drafting should be left to the lawyers, because he is accustomed to complicated clauses and realizes that they are necessary in the American context: U.S. courts will not make independent decisions on how to allocate unforeseen business risks; unclear or ambiguous wording can give the other party an excuse for a law suit or for refusing to perform fully.

The American businessman also realizes that the choice of wording may narrowly interpret or even eliminate an apparently generous concession made in the plenary discussions. He recognizes that American lawyers are not merely scriveners who, as European businessmen sometimes express it, "put into legal form" what the parties have agreed. They compete actively with each other to improve the terms of the contract for their clients. Usually the American businessman has developed a close working relationship with his lawyer and will allow him considerable latitude in the negotiations. Nevertheless, the client normally will remain close to the center of negotiations, both to double check counsel's decisions and to support counsel's credibility when the lawyers come to a deadlock over issues not considered or not resolved by the principals.

How should the busy German businessman deal with this situation? He must begin by budgeting *more* time for negotiations but tell the opposition that *less* time than is actually budgeted is available. He must conceal any impatience over any haggling which may occur and should be deliberative in accepting the opposition's oral proposals. Whenever possible during discussions of basic principles, he should ask his counsel how the idea might be expressed in contract language. If consensus is achieved over wording, it will be more difficult for the American client's counsel to take back later with the left hand what was given with the right. Frequently the process of trying to formulate exact language will reveal differences in interpretation that are not revealed in the phrasing of the American businessman's concession offer. Such differences might turn a seemingly acceptable proposal into an unacceptable one. By conditioning acceptance of proposed compromises upon their being reduced to writing, the German businessman can extract full value for any concession he makes.

If the German negotiator truly has no patience for detailed discussions, then he should demand that the lawyers work into the evening after the principals retire so that they can make progress on whatever problems do not require principals' presence. American lawyers are accustomed to working long hours and, if the negotiations are held where either counsel has his offices, counsel, who will not suffer from time changes, should be able to speed up the pace of negotiations by presenting new wording suggestions or redrafts for the parties to review in the morning.

### Error 4: Insufficient Attention to Strategy.

The word "strategy" encompasses several elements: (1) determination of business objectives; (2) comprehensive

evaluation of alternative ways of investing to achieve those objectives; and (3) formulation and organization of negotiating tactics directed at realizing the chosen investment.

Investment bankers and marketing consultants have criticized middle-sized German businesses for failing to develop comprehensive evaluations of alternatives before making their U.S. investments. They claim that many German investors do not "shop around" enough before investing or are unwilling to seek professional advice or to conduct market studies before making their decisions. These bankers and consultants often express frustration that their clients will sometimes choose a second-rate investment opportunity when, for a "manageable" additional amount, they could have put their money into a prime investment. They find a tendency to "follow the crowd" to a particular geographical area and to underestimate the administrative manpower and capital resources necessary to build a national distribution system in the United States. They also argue that attractive opportunities for local market penetration are often overlooked because of lack of understanding of regional tastes and demographic patterns.

Whether German investors indeed devote too little attention to strategy in this sense is difficult to evaluate. It would seem obvious that many investors are placing a high priority on getting money out of Germany and bringing it to what they perceive as a "politically secure" America. If at times their investment decisions seem to be determined more by the amount of capital they have available to export than by an objective ranking of the investment alternatives, such thought often reflects their attitude towards political versus economic risks. If they invest in geographical areas in which their compatriots have clustered, there may be an economic rationale. If they initially underestimate the commitment of resources required to maximize the success of their ventures, such a mistake is not irreversible.

The mistake made in failing to formulate a coherent set of negotiating tactics — a "game plan" — may, however, create an irreversible error or result in an unnecessary cost.

For example, in a negotiation for a real estate purchase or acquisition of a non-public company, the businessman who shows great eagerness to acquire the property and fails to let the seller know that viable alternatives are being considered, normally pays more for the property than the businessman who keeps psychological pressure on the seller. Yet despite the obviousness of this point, it is remarkable how many German businessmen do not realize how, through their actions or lack of action, they give their American negotiating partners the impression that they are overeager.

Sometimes such eagerness is revealed in the way they accept at face value deadlines presented by their American counterparts. More often than not, such deadlines are artificial and designed simply to make the purchaser act in haste. If the German businessmen views the supposed deadline seriously, the Americans gain a psychological advantage.

In a similar manner, a German businessman's schedule in the United States can give a signal to the American negotiator. A schedule which includes discussions with the seller's competitors may give the American negotiator pause; a schedule which seems to be of short duration and single-minded purpose can stimulate the American negotiator to make additional demands.

The German businessman, of course, retains the threat of rejecting the proposed deal, but because of the need for detailed contracts American negotiations are by nature protracted and the credibility of this ultimate weapon diminishes as negotiations continue. Hence, it is to the German businessman's advantage to give more thought to his own negotiating strategy.

Some tactics to remember are:

(1) *Avoid merely reacting to the American side's proposals.* Try occasionally to restructure the transaction in a radically different way. The new proposal may not be more acceptable to the other party, but the element of unpredictability reminds him that there is a down-side risk in prolonging the negotiations.

(2) *Show some stubbornness over minor points.* Concessions made too rapidly over minor items are an indication of over-eagerness. Not only does a good negotiator want to start his negotiations with a few points he can easily "give away," he also wants to make the other side feel that it has had to struggle to win such points as concessions.

(3) *Try to control the agenda of open issues.* The order in which issues come up for discussion can affect the tone and rhythm of the negotiations. If a major issue comes up early in the discussions and one makes substantial concessions, it is unlikely that those concessions will be balanced by others later in the negotiations. It is much more likely that the initial weakness will be further probed and exploited.

(4) *Do not spend time negotiating non-binding letters of intent.* Some publicly traded American corporations favor such letters in order to establish the timing of public disclosure as required by the U.S. securities laws. Such letters are not essential (nor determinative in themselves of when disclosure must be made). Furthermore, too many German companies get involved in negotiating the letters of intent without the assistance of counsel and then face delays and difficulties when it comes time to negotiate the definitive contract. Remember these letters of intent should be *non*-binding!

Inevitably the proper strategy will depend upon the personalities of the other side's negotiators and the respective bargaining positions of the parties. For this reason it is critical for the German client to reveal candidly his bargaining position to his lawyer and adequately describe the parties' previous negotiating history. Since the German businessman's lawyer will play an important role in advancing or hindering the making of an agreement, he should also be given ample opportunity to "feel out" the other side's negotiators and to participate in developing the negotiating strategy.

The four errors — (1) delay in consulting counsel, (2) premature exchange of drafts, (3) impatience with detail, and (4) insufficient attention to strategy — are not unique to German businessmen nor are they universal among all German businessmen. Some of these errors are also made by businessmen from other countries (including Americans) and non-Germans make some substantial mistakes which are not part of what I have called the "German pattern." During the present period when the American market presents such interesting and attractive investment targets for the German businessman, however, it is a shame for any entrepreneurial hunter to miss his target because of such easily remediable errors. ■

# The Future of German-American Trade

**Arthur J. Massolo**

I have been asked to speak about the future of German/American trade. Will the affluent of the United States drop their Mercedes and BMW's and go back to Cadillac? Will Becks remain the only German word required of the American populace for survival? I don't know the answer to these questions but I would like to share some insights with you. That might be of some help in arriving at the answers.

We all know the facts. Germany is second only to the United States in total volume of world trade. Second place, however, conceals Germany's far greater dependence on trade than the trade dependency of the United States. In 1980, German exports were 23.3% of GNP while U.S. exports amounted to only 8.4% of GNP. This is not a recent phenomenon. Eleven years ago, German exports accounted for 25% of GNP, while that year only 4.3% of U.S. GNP was generated by exports. Why does 1 in every 4 German workers produce goods for trade, while only 1 in 25 American jobs depend on such production? The answer is that Germany prospers on its exports while it lives off its imports. The good life alone does not account for the drive to sell. There is a deeper motive: the need to maintain its hard-won position as a world power.

Germany must sell in order to buy. Germany must buy in order to live. How many students in the United States speak a foreign language well at the end of high school? How many of them have studied the basics of foreign trade, or even elementary trade economics? The answer is few or very few but it is not shocking. Our land area is enormous. Our populace eats and drinks and drives and watches and overall consumes at levels unheard of in most other parts of the world. Why sell to Germany when you sell to Milwaukee? I'm told they even speak English in Milwaukee. Why worry about counselor documents, letters of credit and foreign exchange exposure when you can sell to Houston? They certainly speak English there. There is no incentive.

Quite the contrary in the Federal Republic of Germany. Drive several hours out of Frankfurt, or Dusseldorf, or Hamburg or Munich and you are confronted with other languages, different customs and certainly different ways of doing business. The incentive is immediate. If you want to sell or buy you had better understand well the people and practices with which you are dealing. Germany has become a master of understanding. It has reached the point that I am convinced that certain U.S. subsidiaries of German companies better utilize U.S. trade programs that we ourselves. Their people are multi-lingual, often cross-cultural and well educated in the basics of foreign trade. Germany's geographic position

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*Mr. Massolo is senior vice president and head of the international banking division of The First National Bank of Chicago. This address was presented in the spring before a luncheon sponsored by the German American Chamber of Commerce in Chicago.*



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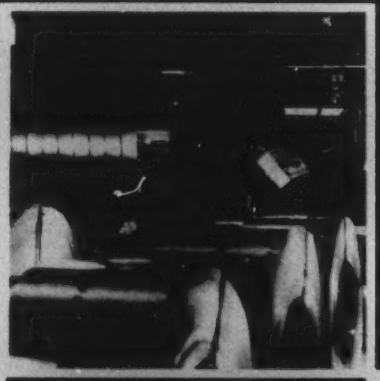
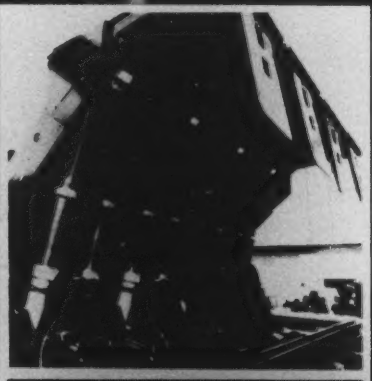
# THYSSEN



## Our Activities



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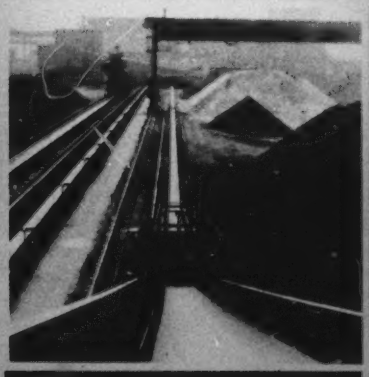

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alone dictates a heavy bias toward trade.

History too has played its role. The need to sell in order to buy and the need to buy in order to live have been heavily ingrained in post-war Germany. Germany learned early on that the only way it could pay for its imports was to earn enough foreign currency by way of its own exports. The excess equated to prosperity. Given the impetus of the Marshall Plan and a highly undervalued Deutschmark, the 1950's and early 60's were the years of Germany's economic miracle, the years of growing prosperity.

It was the oil crisis that brought the euphoria of post-war traditionally western oriented prosperity face-to-face with the reality of German vulnerability. The oil crisis dramatically changed the mix and number of players on the German trade scene. The need to trade was more deeply ingrained than ever. The energy lifeline became critical. Despite objections from the West, Germany had to build OPEC alliances. Arab oil flowed too near to Germany's heart to risk its jeopardy. Alliances as well grew to the East, and were both politically and economically motivated. The same geographical location which has provided the need to trade has also placed Germany on the hotseat of Europe, the buffer between NATO and the Warsaw Pact.

All too often we in the United States overlook this rather tenuous position of our trading partner. By 1980, Soviet bloc countries ranked just after the U.S. among Germany's most important trade customers and suppliers. West and East Germany have over the years built a special trading relationship; West Germany is Eastern Germany's primary trading partner. Special concessions promote trade across East-West German lines. In strictly economic terms, It behooves both sides of Germany to trade with each other. And they have done so. In 1980, Hoechst finished East Germany's largest chemical plant, and not surprising, within one year, the GDR's chemical sales to West Germany rose 92%! We are all aware of the much publicized gas pipeline that will connect Germany to the Soviet Union in 1984. After a number of years of deliberation, West Germany and the USSR approved a deal that will eventually translate into a supply of 30% of Germany's total natural gas demand. This one deal inextricably mingles German economic needs with political security. One cannot overemphasize the role of the German government as a valued ally in the quest for trade, East, West or Third World. Government-sponsored export credit programs channel two times as much export value as do analogous programs in the United States. The German government is an integral part of the successful German trade machine. I think I can safely say that we will see no less emphasis on the part of the German economy to trade in the 80's than we have in recent history. The need and the will to trade remain high. We in the United States must garner our share of the action. But what is that share?

With few exceptions, neither Germany nor the U.S. supplies the other with a product, at least in generic terms, that the other doesn't have. Both countries manufacture cars; both countries produce chemicals. Why then, is there trade at all between us? The fact is, that we find it in our mutual interest to trade for either a pricing or a quality advantage. Due to economies of scale, or decreasing average costs with increasing production, it may be advantageous for the U.S. to import chemicals from Germany, or for Germany to import computers from the U.S., even if these products are comparable to those which each country can produce itself. Despite transfer and financing costs, the price may still be better than that offered at home. A product could have, on the other hand, a technical superiority over its nearest substitutes in the other country. Typically, patented and luxury items enjoy this 'Margin of Superiority" that indeed becomes a market advantage. This is where we see U.S. demand for Mercedes Benz and BMW automobiles, for example, being relatively immune to currency exchange and other short-run fluctuations. The impetus of price and quality has fostered increased trade on both sides of the Atlantic as well a renewed interest in foreign direct investment. Companies that invest directly abroad benefit by the immediate availability of resources, closeness to their market, and a reduction in transfer costs.

We have seen this with the Volkswagen revitalization of the unprofitable Chrysler plant at New Stanton, Pennsylvania, and Hoechst's 15 U.S. acquisitions in the last half of the 1970's. For our part there exist myriad U.S. multinationals operating directly in Germany. Foreign direct investment has provided jobs, better quality and cheaper products on both sides of the Atlantic. As we go into the future there are a few similar trends that we and our German friends will have to buck. Throughout my little talk there has not been a word spoken of the Japanese. They are a force with which we both must reckon. Even with the strong German government support of trade and our less active exim program, we are not a United States Incorporated nor is Germany a Germany Incorporated. We also live in more pluralistic socieities than our Japanese competitors. If there is one nation in the world that has its trade act together, it is Japan.

Another trend which must be fought is the growing cost of labor. For years Both German and American labor unions have been highly responsible compared to their counterparts in countries such as Italy. There has been a good deal of management — labor cooperation to get the job done over the years in both our countries. Whether this can continue as the cost savings of capital improvements replace workers is a real question mark.

In my opinion, despite the current world recession and despite growing competition, there will continue to be ample opportunities for future German-American trade. Our share will be what we can earn through price and product superiority. Our advantage is that Germany craves anything Western. Our disadvantage is our lack of a perceived need to export compared to the inordinate need to export of our trade partner. We in the United States will only export more when we put our minds to increased exports. Our German friends crossed the barrier decades ago. There is not doubt in my mind that Becks and Lowenbrau will be around a long time in the United States, but will they ever drink Budweiser at the Octoberfest? ■

# German-American Economic Review in Figures

| | Federal Republic of Germany | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1981-1982 | | | 1980 | 1981 | 1981-1982 | | |
| | | | Dec. | Jan. | Feb. | | | Dec. | Jan. | Feb. |
| **FOREIGN TRADE** (in mil. $) | | | | | | | | | | |
| Imports | 188,000 | 163,907 | 13,645 | 13,215 | 13,029 | 249,249 | 261,153 | 19,746 | 22,829 | 19,090 |
| Exports | 192,860 | 176,085 | 15,922 | 13,701 | 14,560 | 220,684 | 233,533 | 18,885 | 18,737 | 18,704 |
| Balance on merchandise trade | 4,859 | 12,178 | 2,277 | 486 | 1,531 | –28,565 | –27,620 | –861 | –4,092 | –386 |
| **U.S.-GERMAN TRADE** (in mil. $) | | | | | | | | | | |
| U.S. imports from Germany | 11,822 | 11,502 | 1,160 | 888 | 916 | 11,681 | 11,379 | 1,056 | 1,087 | 875 |
| (+) (–) % from previous year | 4.3 | –2.7 | 14.7 | 3.6 | 13.2 | 6.6 | –2.6 | 17.9 | 9.3 | 15.6 |
| U.S. exports to Germany | 14,156 | 12,611 | 1,080 | 909 | 939 | 10,732 | 10,075 | 782 | 822 | 790 |
| (+) (–) % from previous year | 27.8 | –10.9 | –3.3 | –12.2 | –12.4 | 29.7 | –6.1 | –3.5 | –2.1 | –8.5 |
| Balance on U.S. -German trade | –2,334 | –1,109 | 80 | –21 | –23 | –949 | –1,304 | –274 | –265 | –85 |
| **INDUSTRIAL PRODUCTION** | | | | | | | | | | |
| (+) –) % from previous year | –0.4 | –1.8 | –2.1 | 2.3 | –2.5 | –3.6 | 2.7 | –4.7 | –7.1 | –6.3 |
| Iron and steel | –3.3 | –2.6 | 10.9 | 5.5 | 0.4 | –18.9 | 7.9 | –23.1 | –27.1 | –27.3 |
| Machines, exc. elec. | 3.4 | –1.2 | 1.6 | –5.9 | 4.5 | –0.7 | 5.0 | 0.3 | –3.9 | –5.2 |
| Electrical machinery and equipment | 3.2 | –1.6 | –2.6 | 9.7 | 2.1 | –1.3 | 3.4 | –2.5 | –5.3 | –1.0 |
| Chemicals | –4.0 | 1.6 | –0.7 | 0 | –6.1 | –2.4 | 4.1 | –9.4 | –10.4 | –10.3 |
| Road motor vehicles | –4.6 | 3.1 | 13.0 | 20.2 | 7.2 | –25.7 | 2.8 | –20.1 | –24.7 | –17.8 |
| Textiles | –0.9 | –8.2 | –4.3 | 1.7 | –3.6 | –5.7 | — | –9.4 | –15.5 | — |
| Apparel | –5.1 | –6.6 | –11.2 | –10.6 | | –4.4 | — | –7.0 | — | — |
| **LABOR MARKET** | | | | | | | | | | |
| Population (in mil.) | 61.7 | 61.7 | — | — | — | 227.7 | 229.8 | 230.8 | 231.0 | 231.2 |
| Civilian labor force (in 1000) | 25,833 | 25,680 | — | — | — | 106,940 | 108,670 | 109,184 | 108,879 | 109,165 |
| Unemployed (in 1000) | 889 | 1,272 | 1,704 | 1,950 | 1,935 | 7,637 | 8,273 | 9,571 | 9,298 | 9,575 |
| Unemployment rate (in %) | 3.8 | 5.5 | 7.3 | 8.2 | 8.1 | 7.1 | 7.6 | 8.8 | 8.5 | 8.8 |
| Gross hourly wages in manufacturing (in DM or $) | 13.41 | 14.19 | — | — | — | 7.27 | 7.98 | 8.19 | 8.37 | 8.32 |
| (+) (–) % from previous year | 6.9 | 5.8 | — | — | — | 10.9 | 9.8 | 7.3 | 8.8 | 7.5 |
| **PRICES** (+) (–) % from previous year | | | | | | | | | | |
| Consumer Price Index | 5.5 | 5.9 | 6.3 | 6.3 | 5.8 | 13.5 | 10.4 | 8.9 | 8.4 | |
| 7.7Producer Index | | 5.5 | 5.9 | 6.3 | 6.3 | 5.8 | 13.5 | 10.4 | 8.9 | 8.4 |
| 7.7Producer prices for ind. products | 7.5 | 7.8 | 8.2 | 8.5 | 7.7 | 16.1 | 10.7 | 8.2 | 6.9 | 5.3 |
| **CURRENCY EXCHANGES RATES** (avg.) | | | | | | | | | | |
| Value of $1.00 in DM | 1.8158 | 2.2610 | 2.2577 | 2.2920 | 2.3665 | | | | | |
| Value of DM 1.00 in $ | | | | | | 0.5509 | 0.4436 | 0.4429 | 0.4359 | 0.4226 |

| | 1980 | 1981 | 1981-1982 | | | | 1980 | 1981 | 1981-1982 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | II | III | IV | I | | | II | III | IV | I |
| **NATIONAL ACCOUNTS** | | | | | | | | | | | | |
| Gross National Product at current prices | 1,513 | 1,579 | 1,692 | — | 2,626 | 2,922 | 2,886 | 2,965 | 2,998 | 2,995 | | |
| (+) (–) % from previous year, real terms | 1.8 | –0.3 | –0.7 | 0.4 | 0.6 | — | –0.2 | 2.0 | 3.2 | 3.0 | 0.9 | –2.2 |
| Balance on current account (in mil. M or $) | –29,538 | –17,265 | –6,090 | –11,365 | 9,301 | — | 3,723 | 6,578 | 1,212 | 2,115 | –85 | — |
| Monetary reserves (in mil. $) | 55,000 | 49,925 | 54,374 | 53,050 | 49,925 | — | 26,760 | 30,070 | 29,580 | 29,710 | 30,070 | — |
| Direct investment, cumulative at period end (in mil. DM or $) | | | | | | | | | | | | |
| — German investment | 74,162 | 83,962 | 78,471 | — | 83,962 | — | 213,468 | — | — | — | — | — |
| in the U.S. | 15,664 | 18,971 | 16,821 | — | 18,971 | — | | | | | | |
| — U.S. investment in Germany | | | | | | | 15,393 | — | — | — | — | — |
| Foreign direct investment | 57,616 | 61,616 | 59,469 | — | 61,616 | — | 65,483 | — | — | — | — | — |
| — U.S. investment in Germany | 20,312 | 20,718 | 20,582 | — | 20,718 | — | | | | | | |
| — German investment in the U.S. | | | | | | | 5,290 | — | — | — | — | — |

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
U.S. Department of Commerce
U.S. Department of Labor
Federal Reserve System
International Monetary Fund

# An American Looks at German Labor Relations

**Allen Falk**

The German labor relations system is known for its strong worker influence, which pervades all levels of business in the form of codetermination. The worker influence is precisely defined and structured, affecting all levels of business, from the Board of Directors to the assembly line workers. The word codetermination itself indicates some sort of equality; a balance between the worker representatives and management.

Employee rights guaranteed by German federal law provide a basis for equal negotiation strength between worker representatives and employers. Codetermination guarantees worker representatives three various types of rights: a right to specific information, a right of consultation, and approval rights in specific matters. Which codetermination rights are applied under what conditions, is defined by law. Some examples of the right to specific information include profit and loss statements, investment plans, headcount and personnel planning, product planning, sales figures and planned office area remodeling.

The consultation right is more far-reaching than the right to specific information in that it allows worker representatives to present suggestions and alternatives which must be heard by management, but they need not necessarily be accepted. However, management must get approval from worker representatives in some matters, such as hiring, firing and the training of employees. These rights, which are provided the employee by virtue of the Works Constitution Act, assure the employee a right to partly codetermine certain aspects of the employment relationship. The framework in which these various levels of interaction occur, and the interaction itself, is clearly defined and regulated under German labor law.

### Principles of codetermination

The adversary approach, which is the cornerstone of the American labor-management system, is not the foundation block upon which the codetermination system is built. The German system is a multifaceted system without equal in the industrial relations area. On the other hand, the Japanese have developed their worker influence system within the day-to-day business activities on all levels. This is referred to as quality circles, wherein the employee is provided an opportunity to voice his opinion. The Japanese quality circle is not at all similar to the German system, in which the workers' sphere of influence is defined by codetermination. The Japanese structure does not assume the worker is an equal, nor is it a system whose historical basis is solidly anchored in federal legislation.

To be effective, top management in Germany must deal efficiently with worker representatives at supervisory board meetings. The most important function of a supervisory board is to audit the board of directors. The board of directors is required under corporate law to regularly report (at least four times a year) to the supervisory board as to the company's financial status (e.g., profit-loss, sales, inventory, new products). The board of directors is elected by the supervisory board. The supervisory board is also responsible for an orderly change in the board of directors' personnel.

When a company has more than DM 20 million in assets, then under German corporate law the number of supervisory board members shall be 21. One-third of these members are elected directly by the employees. The remaining two-thirds are elected by the general assembly. The general assembly is comprised of members elected by the stockholders. Practically, its only function is to elect supervisory board members. A smoothly operating board of directors, together with a content supervisory board, has a direct effect on the quality of the product and the efficiency of manpower utilization. Work slow-downs, strikes, walkouts do not exist in Germany. The stability of management and worker representatives indirectly affects sales, stability in meeting delivery dates, better quality and increased worker morale.

### Mutual cooperation

Information can reach top management which would not otherwise in many corporate structures, through supervisory board members or through informed worker representatives. Failing to get constructive criticism or contrary information, or to properly use information when received, could lead to disastrous problems for an effective top management team.

Utilizing the existing law to one's advantage is a difficult procedure involving a re-thinking process on the part of tradi-

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*Mr. Falk has just returned from West Germany where he was employed for three years as a labor relations specialist by Ford-Werke Koeln; he is currently based in New York City as a labor relations consultant. This article is reprinted with permission of "Personnel Journal", Costa Mesa, California, copyright March 1982.*



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tional top management. Long-term planning, together with long-term stability is made possible by a labor relations system designed to produce cooperation and not just to limit the adversary roles. This long-term planning, a characteristic of the German economy, is also a goal of most worker representatives. The worker representatives, and worker representatives on the supervisory boards, attempt to assure job security and fair wage structures. The long-term business goals are supported by the mutual cooperation that exists under the codetermination system. When a business organization is made more responsible in terms of long-term planning, the worker's natural mistrust of the employer begins to evaporate.

The German labor-management relationship is such that when a healthy constructive relationship is developed it can be maintained over a longer period of time. On the other hand, the U.S. system is based on short-term stability and growth. Therefore, when top management enters into a potential merger, takeover or spin-off situation, it then becomes less risky under the German system because the indicators of an unhealthy business are high-lighted under the codetermination system. Because of this special labor-management relationship, companies are made more responsible in developing and maintaining long-term profit under codetermination as opposed to the shorter-term planning in the U.S.

### Historical perspective

The German worker has traditionally had a stronger voice than his American counterpart in labor-management relations. This traditionally strong worker influence was a factor in producing a political climate after WWII, along with the economic miracle in Germany, which allowed the codetermination legislation to be passed.

Before the passage of the Works Constitution Act on January 15, 1972, the current political opposition party strongly opposed its passage. There were numerous factions within the union who opposed the passage of this legislation because they believed it would undermine the power of unions within the individual companies. However, today these individuals readily admit that they miscalculated the effect this legislation would have on workers' rights.

The German codetermination system has a historical basis that is solidly anchored in federal legislation. The Works Constitution Act of 1972 established the legal basis within which day-to-day labor relations negotiations function. This legislation is the single most important factor which guarantees the existance of codetermination in Germany. The Labor Management Relations Act of 1952, the forerunner of the aforementioned legislation, is a watered-down law in comparison to its more recent counterpart. Its importance has been usurped and it retains only historical significance.

### Network of protection

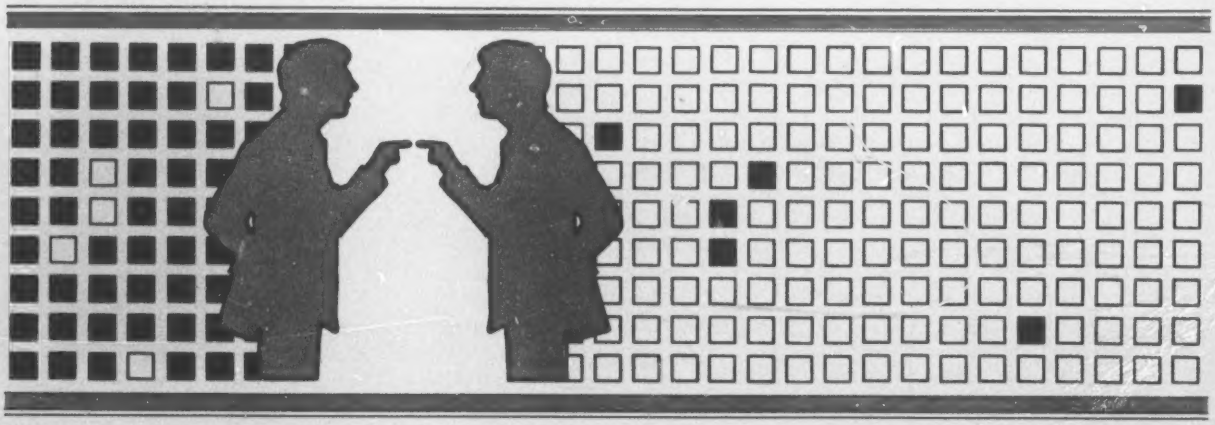
Without strong federal legislation, the employment system as it is today could not exist. The combined results provided by the Works Constitution Act and the following statutes produce an intricate network of employee protection. Some of the most important laws are the Maternity Protection Act, the Juvenile Labor Protection. Act and the Disabled Persons Act. Other laws cover working environment and working time regulations.

One area of negotiation which is not covered by either federal legislation or by company-wide negotiations is that covered by the collective agreements. Wages and salaries are the most important subject of these negotiations; however, a full gamut of issues are negotiated, including paid vacations and guidelines for job classifications. The agreements that result from these negotiations only secure benefits for the employee which the weakest link in the chain of employers can afford. For this reason, large international corporations within Germany provide salaries and benefits exceeding those of their collective agreements. The minimum wage for those employees covered by the agreement is established as a result of these negotiations. Since a new collective agreement is negotiated yearly, the minimum wages generally rise yearly. These negotiations occur between the alliances of private employers within a geographical area (according to similarity in work or output), and their counterpart, the association of unions within that given geographical area.

### Employee representatives

The employee representatives in Germany are not necessarily union officials; rather, they are elected to works councils whose rights are defined in the Works Constitution Act. The members are elected by all employees, whether they are union members or not, and remain in office for a period of three years. The number of works council members is regulated by Article 9 of the Works Constitution Act. When a company has more than 1,000 but less than 2,000 employees, there must be at least 15 members. Article 10 regulates the representation within the works council between the hourly and salaried employees.

The Works Constitution Act also regulates whether or not a works council



member can perform his function full time. Many large companies have regulated this on a company level. For example, the Germany-based division of Ford Motor Company has approximately 1,950 employees who are represented by 15 works council members, eight of whom are full-time employee representatives. In other words, eight employees do not perform the work for which they were orginally hired. The other seven members are relased from their normal work responsibilities, but only to the extent they must perform their works council duties. In addition, there is also one full-time secretary. Sixteen additional employees are designated as substitute members, who in case of illness or vacation could be designated by the works council to replace absent members. All expenses of salaries or wages, office space, furniture, materials, etc. are paid by the company.

The Works Constitution Act provides a network of protection for the works council members themselves; for example, job security, career advancement protection and training. Elected members enjoy job security with only a few extreme exceptions such as theft. A recent decision by the Federal Labor Court in 1979 has also extended this job security to substitute members. Works council members may not be discriminated against by the employer concerning career opportunities. This means that both training and promotions are given as a matter of right at the same frequency a nonmember of the works council receives them. The difficulty lies in designating on and agreeing upon a theoretical comparison employee who is not on the works council to whom a works council member can be comapred.

### Union Influence

Although the German unions do not have direct control over the works councils, they do exert influence over them. Communication between the unions and the works councils is an ongoing process. The unions set long-term goals; provide information on what has been negotiated by other works councils; provide some job-oriented training; and provide political, legal and minor financial support.

In addition to works council members, union representatives are chosen from among the employees to directly represent the interests of the union within the factory. (In addition to any other irregular activities which may arise.) In at least one automobile company, the union representatives have attained a verbal agreement with management for monthly meetings during working hours, lasting approximately one hour. However, it must be noted that the works councils are an autonomous entity, with respect to the unions.

In order to attain results at the negotiating table, works councils often utilize the power provided under German law. This power manifests itself in direct and indirect avenues, which are products of the officially promulgated law. The strongest long-term influence that the works council possesses is over matters concerning personnel (hiring, firing, transfer). All of these activities must be approved by the works council, which must be viewed together with those rights provided the individual employee under the Works Constitution Act.

Perhaps the power most often used by the works council is that concerning overtime. The amount which may be performed is a matter of full codetermination; the works council must approve all overtime. Management becomes vulnerable when overtime becomes a necessity. Logic dictates that the more a company is dependent on overtime, the more it must maintain a functional relationship with the works council. Section 92 of the Act states: "The employer must consult with the works council about the type and extent of the personnel measures necessary."

As to position openings, the works council will often demand that the vacancy be advertised within the group where the vacancy arose, or within the company. This avoids upsetting employees when vacancies are eventually filled by applicants not employed by the company. A consequence of this is that it burdens the company with explaining why specific employees are not considered for specific promotions. Specialization has increased the probability of filling vacant positions from within the existing pool of employees within the company who perform similar or overlapping functions. In other words, this system of hiring puts a premium on employee morale.

### Hiring procedures

Once the advertising issue has been settled, the personnel department performs and arranges for interviews. After a successful candidate has been chosen by the personnel department, in conjunction with the applicant's future supervisor, he or she does not become an employee until the works council has approved. Generally, the works council is immediately informed as to the identity of the successful candidate. If the works council refuses to consent, in writing, to the candidate within seven days, it is to be considered, according to German law, as an approval.

In order for a works council to make an informed decision as to a candidate, it must be provided with the candidate's file. On the other hand, the works council has a right only to view the file of the successful candidate. Another limitation on this codetermination right is that it extends only to approval or disapproval by the works council. Thus, if the works council does not approve, it may not make a conditional nonapproval. The employer may make temporary personnel changes even after the works council has refused to approve or before the works council has responded, but only if temporary personnel changes are urgently needed and are based on relevant reasons. In such a case, the works council must be informed of such action and the reason for its urgency. If the works council does not approve such action, it may be executed only when the labor court approves. The German labor courts find it difficult to justify the urgency when dealing with large companies; therefore, the labor courts are used almost exclusively by smaller companies in such actions.

### German labor courts

The three-tier German labor court system includes the local labor court, which is the lowest level for adjudication, the state labor court, which is the first level of appeal, and the federal labor court, which is the final level of appeal. All cases must initially be taken to the local labor court level. The local and state labor courts are comprised of one professional judge each, along with two other appointed members each; that is, one individual nominated by the local employer association and one who represents and is appointed by the Association of Unions. The federal labor court is comprised identically, only instead of one professional judge there are two.

As in the U.S., the alternative to the labor courts is arbitration. An arbitration committee can only be established when issues as to agreements, as opposed to legal issues of a constitutional nature, are to be decided. The arbitration committee consists of an equal number of employer

and employee representatives, plus a mutually agreed upon chairperson.

### Discipline of employees

Disciplinary measures concerning the individual employee are regulated by the Works Constitution Act. The works council has a right of codetermination as to disciplinary measures. It is common for large companies to agree with the works councils upon these matters and upon a procedure. One automobile company in Germany agreed upon these issues by providing the works council with codetermination rights in both the issuing of reprimands and strong reprimands. However, this clever management ploy developed a loop hole that has become known as the admonition disciplinary measure. The admonition was first utilized three years ago and has not yet been legally tested. Recent negotiations within that company have legitimized the admonition form and further clarified the issue for labor and management by providing guidelines for its application.

The works council also exerts influence over all dismissal situations; the works council must be consulted before every dismissal. A dismissal may be contested by the works council only if it is based on one or more of the mentioned grounds.

When an employee judicially contests his dismissal, a copy of the works council's opinion must be provided. The employee contests his dismissal in local labor court. The individual's right of the works council, as opposed to the collective right of the works council, may be asserted by a contesting employee under the Act to Provide Protection Against Unwarranted Dismissal. When this occurs, the employee must remain on the payroll until a final decision is reached by the court unless a prima facie case of bad faith or unreasonability on the part of the employee can be shown. The entire network of rights and procedures circumscribing the dismissal was promulgated in order to provide a high level of job security for employees.

### Access to financial information

Another powerful right which the works council has is the right to obtain financial information from the companies, so a determination of the general economic situation of the company can be made. The works council's foremost interest is in ascertaining the economic effect on employees. The Works Constitution Act mandates that an economic committee be formed comprising works council appointees and management appointees. The employer must inform this committee about its economic situation. The law specifically asures that information about the following five areas will be provided: methods of manufacture and work; the product program; economic situation of the company; production and marketing situation; and other circumstances materially affecting the interests of the employees of the concern.

This quite extensive list provides the works council with the ability to attain insight into the economic status of the company. Information that is so obtained must be held strictly confidential when the information can negatively affect the capacity of the concern to compete with others. The company is obligated to provide information only if this can be done without risk to the trade secrets of the company.

All of these elements have produced a worker-oriented climate in Germany that has significantly contributed to the German post-WWII economic miracle. ■

# BOOKS IN REVIEW

*WOERTERBUCH ENGLISCH-DEUTSCH (ENGLISH-GERMAN DICTIONARY). By Reinhart von Eichborn. 1,163 pages. Siebenpunkt-Verlag, Burscheid. DM 248.*

A language reflects both the soul and the mind of a people. It endures and yet manages to change and renew itself through the years. As a vehicle for describing the human condition in its infinite variety, a truly excellent dictionary sometimes manages to achieve a reputation of its own in intellectual history. Only time can make such judgements, but the work under review will certainly find an important niche in offices and libraries in the United States and Europe. Mr. von Eichborn's work will find a welcome and appreciative audience among those who require a comprehensive up-to-date dictionary for the world of modern business and commerce. This volume is the culmination of 35 years of work and research by the author, whose name is virtually synonymous with the field of economics and business dictionaries in Germany. This dictionary contains an astounding total of 250,000 entries from the vocabulary of economics, business, finance, law, administration, and transportation. One example of the author's meticulous research and attention to the nuance of language should suffice: under the entry for "capital" are 500 German translations covering every conceivable substantive or metaphorical use of the term. Even the author's obvious aversion to trendy phrases or sociological jargon has not hindered him from offering the translator 300 nouns and adjectives under the entries for "society" and "social". Professors and students, lawyers, economists, businessmen and researchers alike will find Eichborn's new dictionary an indispensible reference work. The German-English version will also appear this year.

*WOERTERBUCH FUER DAS BANK- UND BOERSENWESEN (DICTIONARY OF BANKING AND STOCK TRADING, GERMAN-ENGLISH, ENGLISH-GERMAN). By Hans E. Zahn. 272 pages. Fritz Knapp Verlag. DM28.*

Languages are living things and new terms for modern developments are emerging continuously. For this reason, both the publisher and the author considered it useful to compile a new specialist dictionary containing the up-to-date English and German vocabulary in the fields of banking and the stock markets. Approximately 11,000 terms have been listed on 260 pages. Wherever it was deemed necessary, the English or German translation has been supplemented by a short explanation. The author, head of language services of one of Germany's largest commercial banks, has drawn the terminology in this dictionary from contemporary usage. His sources were primarily documentation used by the banks themselves, financial dailies, and economic periodicals. Consequently, a significant portion of terms included in this work have not appeared in earlier glossaries.

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- In 1981, BASF invested DM464 million in their American future

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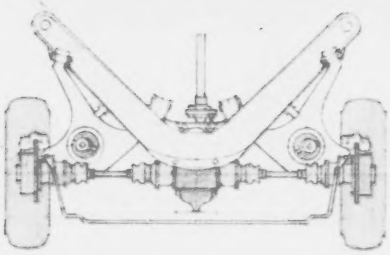
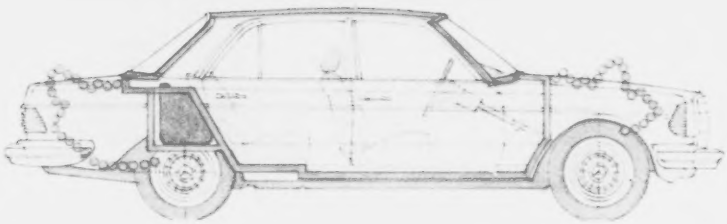
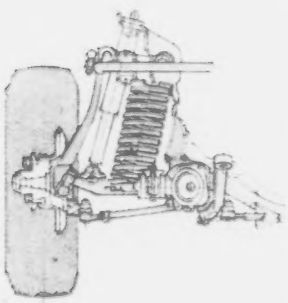


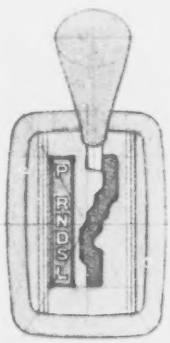
*Overhead view of diagonal pivot rear axle, a key element of the 300D's elaborate fully independent suspension system. To Mercedes-Benz, sports car handling and sedan handling should be the same.*



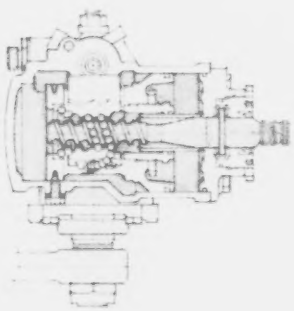
*There are 120 safety features incorporated in every 300D—and the car's body itself is one. Front and rear sections are carefully devised to progressively yield on heavy impact (dotted lines), managing kinetic energy before it can be transmitted with full force to the passenger area within.*



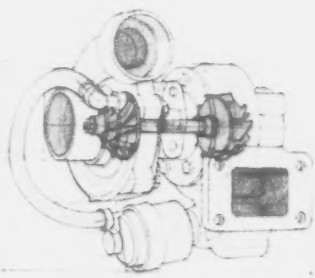
*Zero-offset geometry of front suspension mobilizes esoteric physics to guide the 300D along a true forward path.*



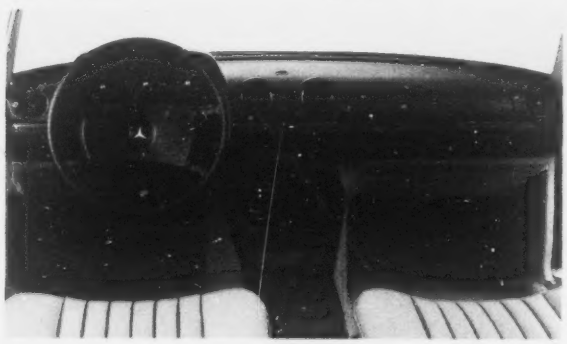

*Floor-mounted shift lever connects to a rugged four-speed automatic gearbox.*



*Twenty-four tiny ball bearings form the heart of the 300D's exquisitely smooth and precise recirculating-ball steering system.*



*The 300D's rank as America's most potent diesel automobile owes much to this 17-lb. piece of engineering brilliance: a turbocharger.*



*Instrument panel of the 300D is not decked out with gadgets but laid out with ergonomic exactitude. Look of rich wood is achieved by using rich wood.*

*300D's vivid performance is excelled by no other diesel automobile sold in America.*

# The 300D Turbodiesel: the Mercedes-Benz engineers' idea of a $30,000* luxury sedan.

**The luxury of superb technology permeates the 300D Turbodiesel Sedan, creating superb over-the-road performance. Mere sport is not the goal: tenacious roadholding, sharp reflexes and precise control simply make better drivers–of aficionados and housewives alike.**

The 300D Turbodiesel boasts such extravagances as six separate brakes, seven shock absorbers, and a rigid unit body welded at exactly 4,786 points.

If these seem less seductive than tufted velvet seats or razor-edged styling, Mercedes-Benz engineers can only shrug. Seduction is not their aim. Providing you with the most precise possible driving instrument is.

### Not a blunt instrument

There is deep satisfaction in an automobile meant to elevate your driving standards more than your ego.

For example, this 3585-lb., five-passenger sedan yields no ground even to sports cars on roller-coaster back-country roads.

It will not panic if suddenly thrown into a maze of S-bends in the rain.

Its steering system is not a blunt instrument but an almost sensually responsive mechanism–a liquid-smooth *recirculating-ball* mechanism, guided by 24 ball bearings, seemingly friction-free.

The 300D's automatic transmission is no ordinary luxury-car automatic. The shift lever is down beside your right thigh, and can be manually actuated when you want to select gears yourself. (Note that this is a *four*-speed automatic.)

The 300D's four caliper-type disc brakes are meant to keep stopping the car squarely and safely–even after repeated hard panic stops, even in the wet.

Mercedes-Benz engineers care little if the world knows that each brake disc measures 11 inches in diameter, or that the car's front suspension geometry is engineered to help minimize braking "nose dive." They care only that the driver is better off as a result of these and myriad other technical details.

### Most powerful diesel in America

Those engineers have squeezed more power from the 300D's five-cylinder, three-liter engine than other engineers have yet been able to extract from any other passenger car diesel–even huge V8's.

The crucial factor is *turbocharging* and its stunning extra thrust. It helps make this the best performer of any diesel automobile sold in America.

The performance story should not overshadow the efficiency story. Powerhouse that it is, the 300D bests the mileage of virtually every luxury sedan you can buy today–with EPA numbers of 27 mpg city estimated and 33 highway.** Conventional tune-ups? Never.

### No artificial ingredients

The 300D's designers made no attempt to decorate it like a luxury car. They were too busy making it an aerodynamically clean, spatially efficient car.

Electronic cruise control, electric window lifts, AM/FM stereo radio/cassette player, bi-level climate control system–what conventional luxury sedans offer by way of conveniences, so does the 300D Turbodiesel Sedan.

Only garishness is absent. The instrument panel is no entertainment center twinkling with gadgets but an exercise in ergonomic exactitude: white-on-black gauges, instantly activated controls, unobstructed visibility.

Seats are constructed and upholstered for the luxury of proper support on all-day drives. This explains the firmness that may startle the uninitiated.

Interior wood trim is genuine zebrano wood: handworked, fitted and finished. A small thing that epitomizes this car's unremitting honesty of design–as its 120 built-in safety features epitomize its seriousness of design.

### The luxury of retained value

The 300D Turbodiesel can point to one final advantage that no domestic luxury car can even approach: as a Mercedes-Benz Turbodiesel, it belongs to a group of cars that have been shown (according to the February 1982 *N.A.D.A. Official Used Car Guide*) to retain over *88 percent* of their original value after the first three years.

*Approximate suggested advertised delivered price at port of entry. **EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less.

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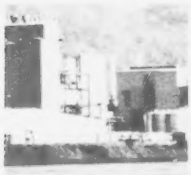

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# Chamber Commentary

## Bear market in world trade

Markets that refuse to go up will generally end up going down. What is true for stock markets could apply to world trade this year. Having reached a total volume of some $2 trillion a year in 1980, global commercial exchanges remained stagnant last year, and many officials fear that they will show outright contraction in 1982.

At this point, it does not seem that we can blame protectionism for this worrisome prospect. Slow growth and outright recession in some countries have depressed demand, not beggar-my-neighbor policies, at least not yet. Indeed, if this analysis is correct, it could augur well for the day when the world's major countries return to the path of growth. One expert calculates that once growth in the economies of Europe and North America reaches the threshold of 1.5 percent a year, each percentage point rise in output will be accompanied by a three-percentage point rise in trade (measured by non-oil imports).

But the nature of the current economic malaise does not encourage optimism that recovery of the requisite breadth or magnitude will occur soon. The pressing need for fundamental restructuring of our basic industries is taking place within an inflationary, high-interest-rate environment. The result has been a level of unemployment — estimated at 30 million in the West — unprecedented since the Great Depression.

Many analysts continue to insist that we have learned the lessons of the high-tariff, low-quota protectionism practiced 50 years ago. Maybe so. But proposals for new trade restraints in the form of "voluntary" export limits are proliferating like mold on wet bread. And they differ from the more traditional, old-fashioned variety only in their greater subtlety. For all their deviousness, they are no less pernicious to economic efficiency and hardly less damaging to the vigor of global commerce.

It is disconcertingly paradoxical that this new variant of protectionism is largely concentrated in the older industries such as steel, textiles, footwear, shipbuilding, and autos. Even as it permeates these older sectors of our economies, it threatens to spill over into the new industries of the future, undermining the competition-bred efficiencies and the economies of scale which they will require if they are to expand and create new jobs and wealth. But this is the long-term view, and small minds will generally dominate the short-term vacuum. Suffice to recall an old Wall Street adage: Bulls make money, even bears can make money, but pigs never.

# Karlfried Nordmann 1915-1982

The German-American Chamber of Commerce regrets the passing of Mr. Karlfried Nordmann, former President of Mercedes-Benz of North America, who died unexpectedly at his home in Greenwich, Connecticut on July 21. He was 66 years old.

Mr. Nordmann joined Daimler-Benz AG in 1950 as a member of the sales organization and was promoted to head of the sales promotion department five years later. After serving in a variety of sales and service positions he became head of worldwide service for Daimler-Benz in 1968. He was named president of Mercedes-Benz of North America and Mercedes-Benz of Canada in January of 1971. He continued to serve as a director of MBNA after his retirement.

Mr. Nordmann served as Vice President of the German-American Chamber of Commerce from 1973 until 1976. He was elected Vice Chairman in 1978 and in 1981 was elected as lifetime Honorary Director.

In addition to his wife Tina, he is survived by a son, Peter, and a daughter, Corinne.

Mr. Nordmann's family has established a scholarship in his memory at The Juilliard School in New York City.


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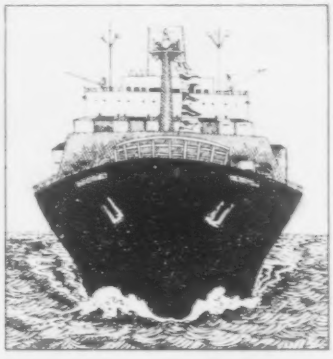

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# Trade Fairs

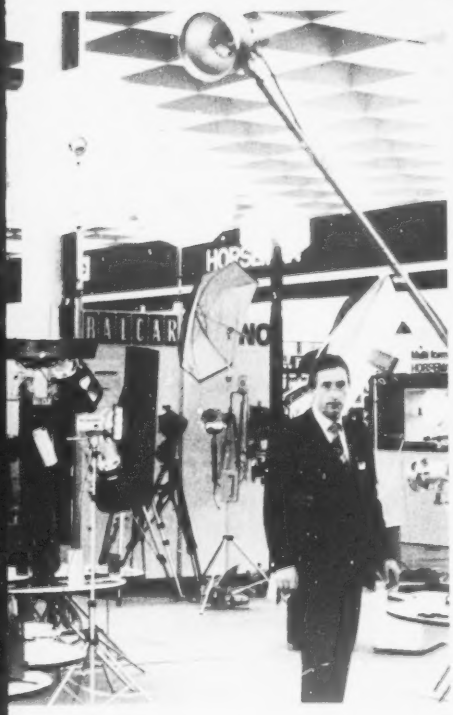
## Photokina 1982

The German Radio and Television Trade Association — the DRFFV — is preparing a special video guide to be used by association members when visiting photokina in Cologne in October this year. It is being done to help dealers cope with the often bewildering array of video equipment on display in Cologne from 6th to 12th October this year. The video guide also illustrates the growing importance that photokina has for the radio and television trade in general.

The German Radio and Television Trade Association represents 6000 radio and television dealers across the country who have a joint annual turnover of DM 7.2 billion. This represents 65 percent of the total turnover in consumer goods in the home electronics sector.

According to the DRFFV, the relatively young home video sector is now making up a sizeable share of the turnover achieved by the radio and television trade in West Germany. Specialized trade outlets account for roughly 70 percent of sales of highly technical products like video recorders, etc. 150,000 video recorders were sold on the West German home market in 1979. Sales figures went up to 400,000 in 1980. Last year, the number of video recorders sold in West Germany touched the 790,000 mark. In other words, sales of video recorders almost doubled. Estimates put the total market volume in 1981 in the entertainment electronics field at around DM 12.4 billion. This means that the video recorder sector has managed to corner 12 to 14 percent of the overall market. 86,000 video cameras were sold in 1981. (These are classified as hardware in the trade.) These figures do not include the whole of the accessory field, i.e., tripods, lighting equipment and carrying cases, which will be on display in their entirety at photokina 1982.

Special interest on the video scene is being paid to the 'follow-up' business created by video software. Estimates for 1980 from DRFFV sources show a total of 4 million blank cassettes and 315,000 video films sold. Estimates for 1981 from the Radio and Television Trade Association quote 9 million, 400,000 blank cassettes and 315,000 video films sold. Estimates for 1981 from the programs sold and 2,900,000 rentals.



## INTERZUM Cologne 1983

New advances and prospects in furniture manufacture, interior design, property renewals and in the home construction field are what trade visitors have come to expect from the biennial International trade Fair for Furniture Production, Interior Design and Soft Furnishings — Upholstery Machinery, or INTERZUM for short.

This event is now the leading international trade fair or component fair for the entire furnishing and interior design sector. Held for the first time in 1959, when 225 exhibitors presented their product ranges, it attracted 1,123 firms from 48 countries to the last event in 1981.

The good results of the last trade fair furnished further evidence that the INTERZUM, as international venue for its sector, attracts highly qualified experts of high standing. This applies equally to the furniture and upholstery industry, to the wood and plastics processing industry, to joiners, floor and parquetry layers, painters and varnishers, architects, interior designers and decorators, to stylists and dealers. The gratifying course of business was due not least to the new improved hall concept and to the product range with its even more marked international flavor.

In all, the INTERZUM Cologne 1983 will occupy Halls 10, 12, 13 and 14, covering a gross display area of 103,000 sq m, i.e., 37.5 percent more than the exhibition space at the 1981 event.

### IFMA Cologne 1982

Approximately 45 American companies plan to exhibit within the USA Pavilion at the International Bicycle and Motorcycle Exhibition (IFMA) to be held September 16 to 20 in Cologne, Germany (September 16th and 17th are trade visitors' days).

The exhibitors are vehicle, accessory and apparel manufacturers who are striving to make their American-made bicycle and motorcycle products better known throughout the world.

The U.S. motorcycle industry has grown tremendously in recent years, and the long-term outlook is extremely bright, in spite of the current economic slump which has slowed sales of new motorcycles. An estimated 7.4 million motorcycles are in use today, and the industry generates over $8 billion in sales, services, taxes and licensing each year.

Many are predicting that the 1980s will see the motorcycle emerge as a viable transportation alternative to the automobile.

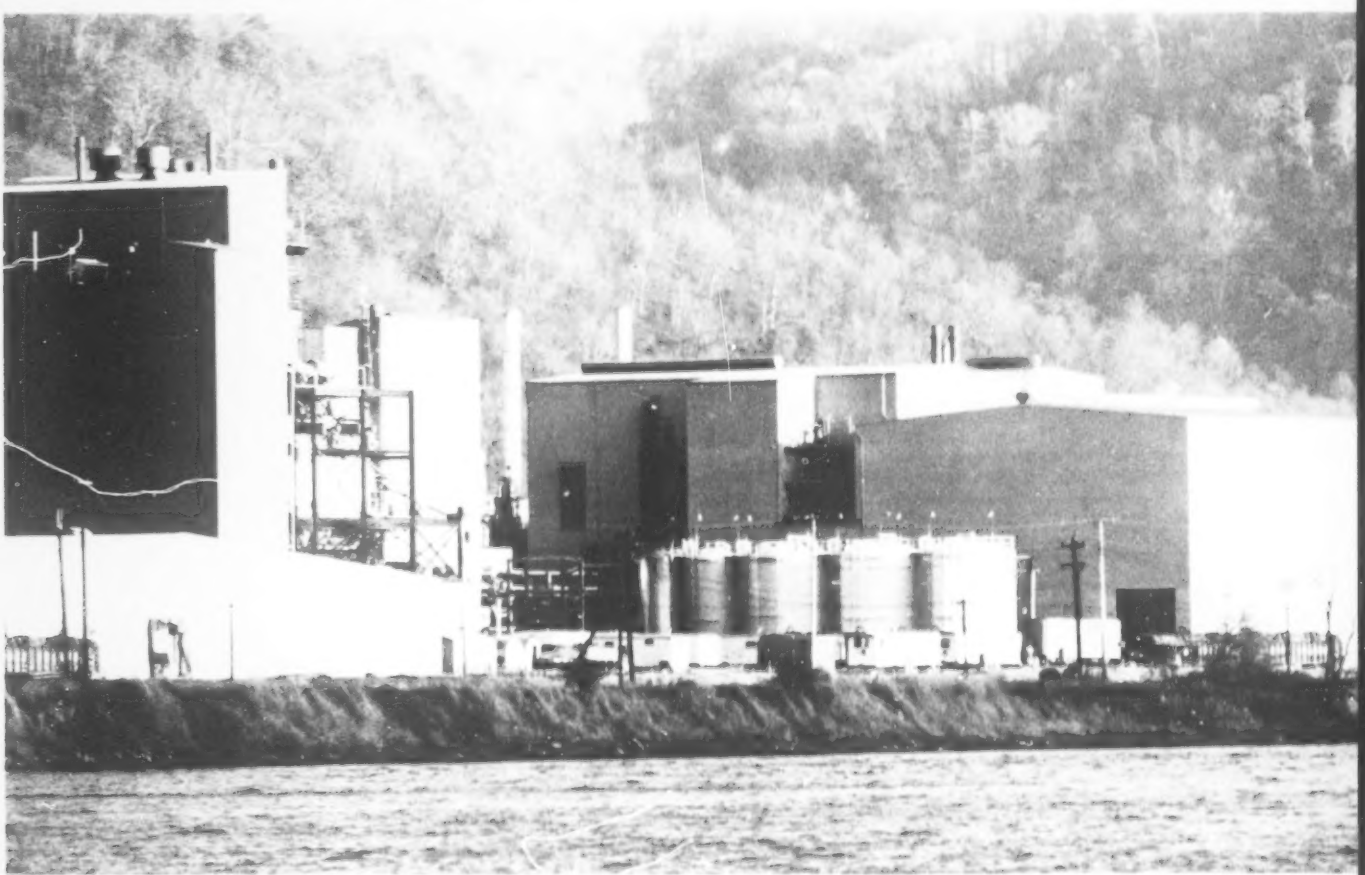
The growing cost of fuel and of autos has attracted a great deal of attention to the motorcycle's advantages. The off-road segment is also strong, with an estimated 3.9 million motorcycles being used off highway at some time. A big growth area is with the three-wheel all-terrain vehicles (ATVs) for both recreational and farm uses. A recent survey by the trade publication Motorcycle DEALERNEWS showed that ATV sales represented approximately eight percent of a typical dealer's sales in 1981, and that figure could be as high as 20 percent by the end of 1982.

Bicycle sales in the U.S. have also faired better than the general economy, with high priced units showing greatest strength. In increasing numbers, Americans see bicycling as an adult recreational activity, and demand state-of-the-art lightweights with chrome-moly frames and alloy components. Adult aftermarket items like cycling clothing and touring equipment led accessory sales in 1982, as they had in 1981.

Demand for technical sophistication also characterizes the juvenile bicycle market in the U.S., as the sport of bicycle motocross continues to gain momentum. If anything, children are even more insistant on quality than their parents. As a result, the average BMX customer now spends more than the average adult bicyclist, according to BICYCLE DEALER SHOWCASE, a trade publication for American bicycle dealers.

In 1982, American customers for both bicycles and motorcycles showed themselves willing to pay for high performance and high quality despite a recessionary economy. ■

# German Investment in the United States: Innocents Abroad?

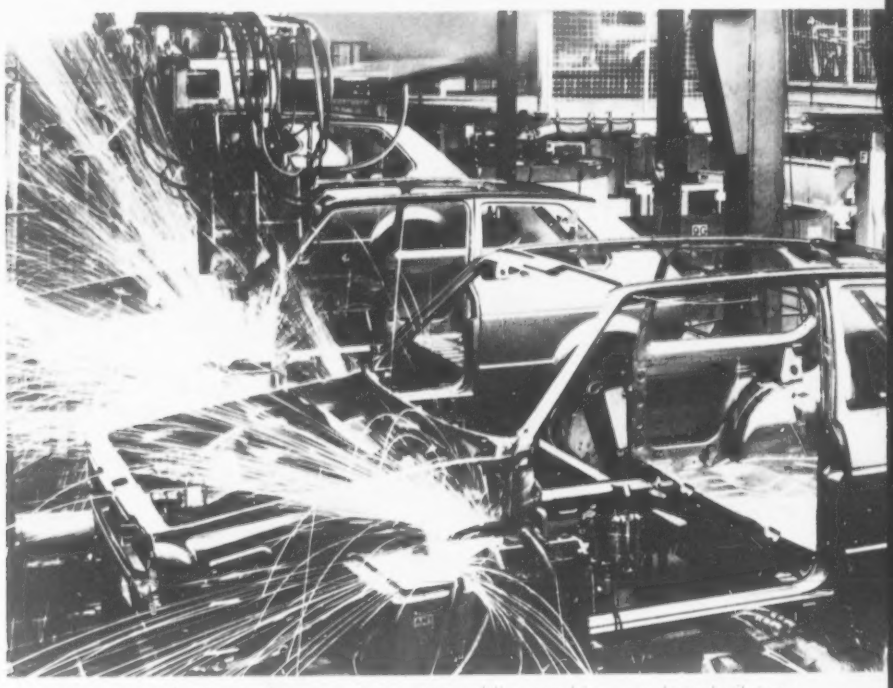


*Bayer AG subsidiary Mobay Chemical has recently completed the final stages of its 90 million lb. iron oxide pigment plant in New Martinsville, West Virginia. Bayer's total world investment for 1982 will be over DM 2.1 billion.*

Fact: Despite the persistence of recessionary trends and the overall sluggish performance of the American economy, German investment activity in the United States continues to flourish. Considerable debate over the soundness of this investment has been ignited by economic pessimism which has become apparent in many business quarters on this side of the Atlantic.

The American business community, which largely applauded the glowing prospects of a Republican presidency before the 1980 election, and which looked forward to a regeneration of the US economy in a favorable business climate, has since periodically balked at both the strong fiscal medicine prescribed by the Reagan administration as well as at the "cold turkey" monetarism applied by the

leadership of the Federal Reserve Bank. As one Wall Street analyst put it, "By the time [Budget Director] Stockman got into trouble, a lot of people down here didn't believe the Reagan program would work. You can bring a horse to water but you can't make it drink." Indeed, the reluctance of American business to respond to Reagan's optimism has been recorded in the daily activity of the stock market. By the end of the president's first year in office the Dow-Jones Index had fallen to its lowest level since 1977. Other economic indicators continue to reveal grave problems as well. Unemployment, which had hovered around the seven percent range at the time President Carter left office, rocketed toward a 41-year high in July, 1982. And on the monetary front, what Columbia University economist Elliot Zupnick calls the "persistent inflation demand in the American economy" has proved a difficult beast to tame. Federal Reserve chief Paul A. Volcker: "In view of deeply seated inflationary expectations, the hope for a quick and painless recovery is an illusion." Volcker points out that the monetary policies pursued by the Fed cannot cure the patient unless the patient is willing to undergo treatment. "In order to overcome the present recession, long-term interest rates have to fall. That in turn will depend upon the way capital suppliers evaluate price trends. Their judgement will be negative so long as the financial requirements of the government are perceived as inflationary." While it is basic economics that teaches that a harmony of monetary and fiscal policies is necessary, wrestling the dragon of fiscal expenditure has more than tested the mettle of grail-seekers in the administration, as periodic upwardly revised federal budget estimates have demonstrated. Moreover, the Reagan team, already troubled by serious infighting and personnel problems, knows that it can't wait around for miracles to be performed by some Parsifal *cum* economist. In the fall, the results of House, Senate, and gubernatorial elections will reveal the verdict of the American public. In the view of New York Congressman Jack Kemp, one of the most vocal supply-siders in the Reagan camp, "If the recession persists into 1983 we are in trouble."



*German auto production in America. Automatic welding machines send sparks flying as they "knit" a VW Rabbit body out of steel stampings.*

## German Difficulties

German investors have experienced America's economic problems at first hand. Marketing difficulties and the global slump in the automotive sector have caused Volkswagen to indefinitely postpone plans to open a second production facility in Michigan. BASF's American subsidiary, BASF Wyandotte, closed its books in 1981 with a loss of $40 million. And close to double that amount was lost as a result of exchange rate movements. The exchange factor has dampened the short-term expectations of many German investors here, as the Fed's tight grip on the US money supply — what Germans refer to as *amerikanische Hochzinspolitik* — during 1981 meant towering interest rates and an appreciation of the dollar against major international currencies including the German mark. Thyssen chief executive Dieter Spethmann had to tell his stockholders that, following on 1980 profits of $69 million, Thyssen's American subsidiary, Budd Company, the largest producer of rolling stock for human conveyance in the US, lost $75 million during fiscal 1981. As Klaus Engelen, economic journalist for the *Rheinischer Merkur* commented in April of this year, "High interest rates worldwide, a tide of bankruptcies, stagnation, and protectionism have made the prospects for German investment abroad dim." Tengelmann chief Erivan Karl Haub paid more than DM 200 million for a controlling interest in the Great Atlantic and Pacific Tea Company, with the intention of streamlining the extensive American supermarket chain. But despite the closing of 377 outlets during 1981, further reducing the number from 4500 during the firm's boom years to about 1500 at the present time, last year's business closed with losses of $30 million on a sales figure of close to $7 billion. As Haub remarked after he had injected another DM 220 million into A&P, "We underestimated the problems."

Hugo Mann, responsible for the development of the German retail chain Wertkauf-Center and the furniture group Mann-Mobelgeschäfte, became deeply involved in the California supermarket chain Fed Mart Corporation. Despite the expenditure necessary to continue Fed Mart's operation — millions over and above the DM 50 million that was required to acquire a controlling interest in 1975 — the American firm has persistently shown red figures.

The short-term situation in the energy sector was not any better. Ruhrkohle AG and the Veba subsidiary Stinnes together by 1981 had lost over $80 million through their investments in Virginia and Kentucky coal production. The dawn of optimism which appeared on the coal horizon during the early stages of global adjustment to the first oil shock has be-

come occluded since the second petroleum price hike, particularly in the light of intrastructural difficulties in the development of both new and previously abandoned transport facilities. In the words of Rudolf Lenhartz, chairman of the board at Saarbergwerke AG, which invested DM 246 million in 1981 for a 25 percent interest in Ashland Coal, Inc. of Huntington, West Virginia, "We are further away from a renaissance in the coal industry than we had previously expected."

### Investment Trends

During the 1960s the present day recessionary conditions in Europe and America were unforeseen. In that decade the growing competitiveness of German industry under steady economic leadership resulted in an undervaluation of the German mark. This facilitated export growth, particularly in an environment of global economic expansion. Thus throughout this period, German direct investment in the United States remained relatively feeble. German markets abroad were protected by three factors: legendary efficiency in meeting delivery schedules, the far-sighted development of highly-specific product lines, and finally by the relative overvaluation of foreign currencies, particularly the US dollar. After the breakdown of the international fixed exchange rate rules since 1972, however, this situation began to change. During the 1970s the German mark appreciated by 60 percent against the dollar, and rising trend in German direct investment in the United States mirrored these exchange rate developments. Prior to the collapse of the Bretton Woods monetary order total German investment in America stood at just over DM two billion. By the beginning of 1980 this amount had increased six fold.

Moreover, an investigation of investment trends in the 1970s would suggest that, in view of the sluggishness of the post-oil shock American economy as well as the policy course changes which punctuated the Nixon-Carter transition and the accommodating policies of the Federal Reserve Bank during these years, other stimulants of German investment flows were provided by the comparative performance of the German economy itself. Hourly wages in the Federal Republic's manufacturing sector climbed by 80 percent during the 1970s, while in the US the corresponding growth rate was 15 percent lower. German hourly wages, estimated in 1970 as half the American level, have since reached an equivalent plateau. And as cost-push inflation took its toll in the wake of the petroleum price rises, affecting producer prices in those German industrial sectors heretofore known for their productivity — automobiles, chemicals, and machine tools — German industrialists responded by acquiring interest in American firms and by establishing new production facilities in the United States. Particularly since 1976, the gulf between German and American industrial output rates expanded, largely reflecting cost differentials in the respective labor and raw materials markets. Throughout the 1970s the leaders in German investment in the United States continued to be those sectors plagued most by producer-price inflation: chemicals, autos, electronics, and machinery.

**Growth of German Direct Investment in the United States**
*(DM million current)*

| Year | Increase from Previous year | Total |
|---|---|---|
| 1972 | 147 | 2243 |
| 1973 | 363 | 2606 |
| 1974 | 874 | 3480 |
| 1975 | 748 | 4228 |
| 1976 | 1138 | 5366 |
| 1977 | 1339 | 6705 |
| 1978 | 1886 | 8591 |
| 1979 | 3693 | 12284 |
| 1980 | 3380 | 15664 |
| 1981 | 3307 | 18971 |

*Source: Bundesministerium für Wirtschaft*

*Dieter zur Love of American Hoechst: "The US is the biggest single market in the world."*

### Optimistic German Outlook

American economic difficulties not withstanding, the flow of German direct investment into the United States continues apace, as the table on page 09 indicates. In 1981 more than three billion marks were expended in US investment than in the year before. German investers remain optimistic, particularly in the long run. John G. Broockhuis, president and chief executive officer of American Hoechst, remarks, "Our strategy is to invest now in order to secure long-term rather than short-term profits." And Dr. Werner F. Zieler, chief executive at Siemens, agrees, "Despite short-term difficulties there is much to be said for the fundamental strength of the American economy."

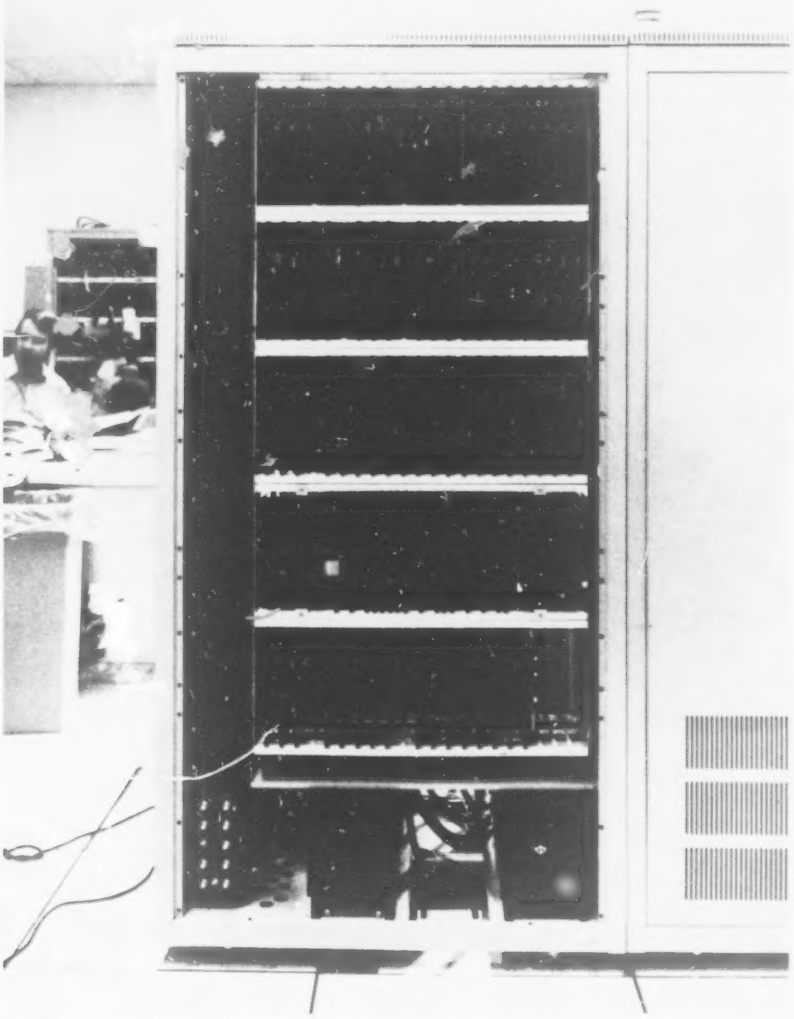
*Coffrin of Vermont: "We like the German capital base."*

The reasons for such optimism are manifold. According to German investment analyst Paul Broicher, the United States remains "*die Bastion des freien Unternehmertums*" — the stronghold of free enterprise. In his words, "in the long run, real first-class investments are those where there will be no threat of nationalization." Peter Coffrin, Director of Foreign Investment for the State of Vermont, comments, "We get the sense that foreign investors perceive the United States as their most stable opportunity."

The biggest German players in the US investment market have naturally been well-known, large firms with a proven track record both in the capital markets and in terms of established profitability. The Daimler-Benz takeover of Consolidated Freightways made it to *Merger and Acquisitions*' list of the top 25 international moves in the third quarter of 1981.

In the spring of 1982 Daimler-Benz added Freightliner Credit Corporation to its already substantial US holdings. FCC will serve as a financing unit which will provide assistance to the various dealer groups of the parent firm's three North American vehicle distribution companies — Mercedes-Benz of North America, Freightliner, and Euclid, Inc., a manufacturer of off-highway heavy haulers headquartered in Cleveland. Freightliner Corp. holds approximately 10 percent of the US class eight truck market (over 33,000 lbs. gross vehicle weight). In 1981 206 Freightliner dealers sold more than 10,500 class eight trucks in North America. Flexibility in financing was a key to the Daimler-Benz deal in America. The firm acquired the principal US and Canadian manufacturing subsidiaries of Consolidated Freightways for at least $284 million. Daimler-Benz delivered an initial cash payment of $204 million. Future payments were to be $50 million plus interest in the first year, plus six annual installments of $30 million plus interest beginning in 1983. The large and diversified financial market in the United States has been exploited by other firms as well. Henkel KGaA of Düsseldorf, a manufacturer of household, chemical, and industrial products, was able to acquire a major interest in Clorox in late 1981 through agreed purchase of one million newly issued common shares at $15 per share. A $9 million 12 percent note was issued with a 14-year maturity. Upon conversion of the note Henkel's interest in Clorox will be raised to 25 percent.

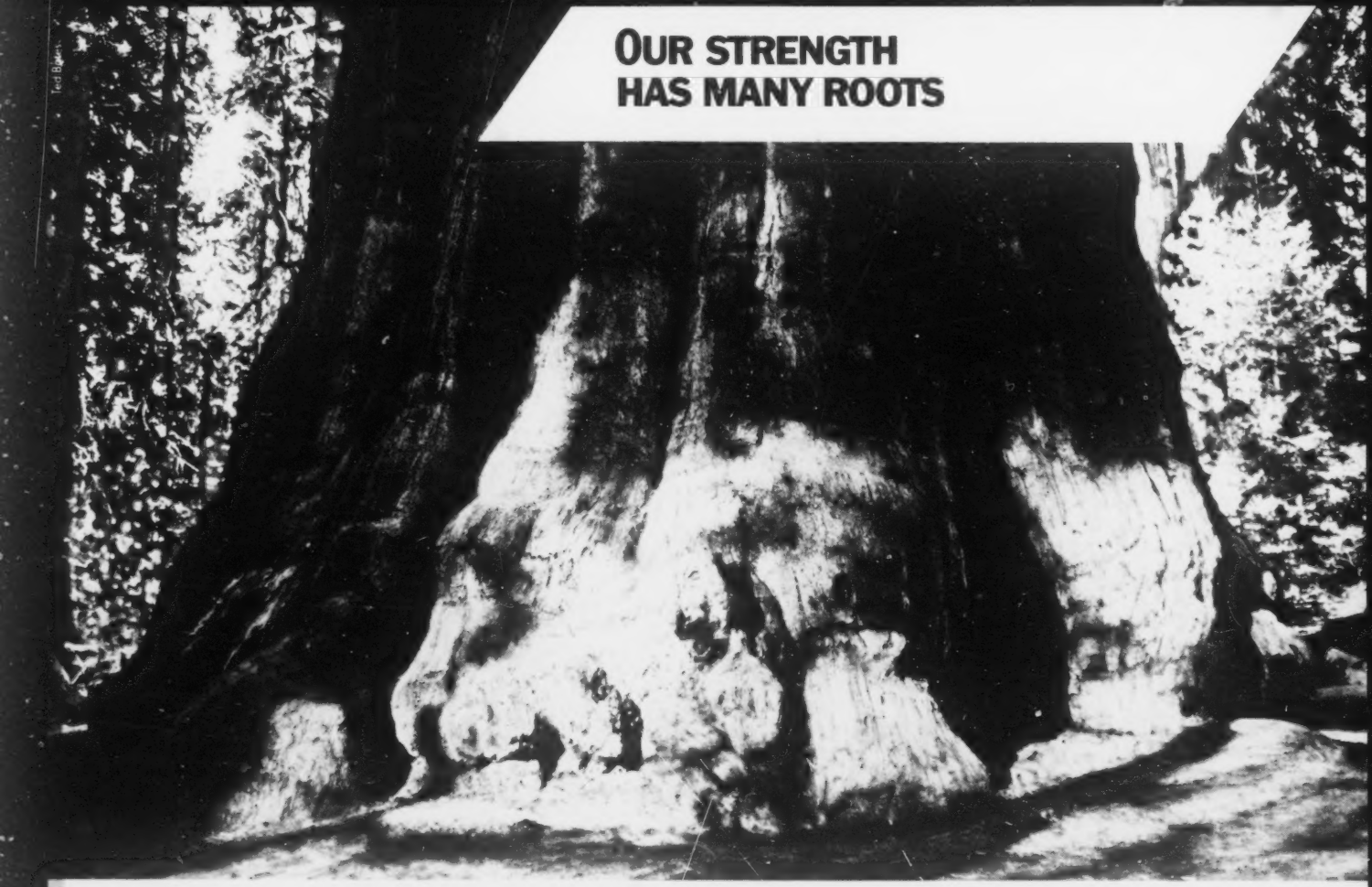
*Zieler of Siemens stresses fundamental strength of US economy.*



*The Saturn III digital PABX developed by Siemens under test at its development facility in Boca Raton, Florida.*

Despite the legendary close relations between German parent firms and the important Frankfurt banking community, American financing is the rule rather than the exception. Broockhuis underscores this point by again noting that serious German investment is a long-term proposition. "If we were trying to find possibilities of getting cheaper financing from Germany in marks where we would have to hedge in the futures market against exchange risks, then we would come out with the same cost factor. So we don't like to fool around there."

But stability and financing is by no means the whole story. BASF, which by 1981 had established sizeable holdings in the US, in that year invested a total of DM 464 million. One big reason: market penetration. It has long been axiomatic that Germany must export to survive. Recent trends in the chemical industry in which BASF plays a critical role have served to substantiate this fact. While domestic sales in the German chemical industry grew in 1981 by only five percent, sales in foreign markets increased by 16.6 percent. The well-developed infrastructural base in the United States facilitates this sales growth. Of particular interest to German investors is the superior transportation and distribution network already in place at the time the German firm begins to do business in a market which supplies a population of 230 million consumers. Jack Welsh, In-



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**THE BROADLY BASED BANK**

ternational Director for the Georgia Department of Industry and Trade, talks about the attraction Atlanta has had for recent German investment. "It's the air service that brings in the business here and the Germans understand this. The Atlanta airport is the largest terminal facility in the world, serving as a distribution center for the entire US market." Dieter zur Love, Senior Executive VP at American Hoechst, has set the goals of his firm along market development lines as well. "For the United States, our current long-term goal is to achieve a position in the market comparable to our worldwide technological potential. The US is the largest single market in the world, with a high standard of living." The size of the American market affords the possibility of exploiting increasing returns to scale, given an increasingly competitive international economy where crucial price rises can drive a firm out of business.

The Flick Group of Düsseldorf, with sales of $4.3 billion, has recently acquired additional interest in W.R. Grace of New York. At the end of 1981 Flick purchased 447,000 shares of W.R. Grace worth about $20.3 million. The rationale: While in 1980 Flick's German sales fell by 3.6 percent, Grace experienced a 15 percent increase in proceeds from the sales of chemicals and other products. One Flick executive commented, "This trend may very well continue. Economic conditions in Europe may get worse before they get better. On the other hand, the next 10 to 15 years in the United States looks, on the whole, comparatively healthy."

Indeed, many German firms believe that the US will continue to provide a more favorable environment than other states. German investors, like their counterparts in Europe and America, have been chastised by their experience in the less-developed world. As one German investment consultant noted, "Sure, you could get better *terms* elsewhere — in the Far East, in Africa, or in South America — but we've only just begun to learn that with these terms comes an infinitely greater economic and political *risk*." Volkswagen lost DM 457 million in Brazil in 1981 alone due largely to Brazil's economic collapse following the second oil shock. And there have been allegations that corruption among South American governments has reduced Volkswagen's market share on that continent. Vermont's Coffrin: "There can be no question that third world investments have compelled European investors to take a second look."

While reassessment of long-term corporate strategy has prompted many German firms to make bigger commitments to the US market, they are attracted by the favorable attention they have received from American developers. The interest is mutual. Coffrin notes that German firms should continue to offer plenty of opportunity for economic growth to his state. "We like Germany as a source of potential investment in part because of its large capital base." Five German firms have recently located in Vermont. Karl Suss has established facilities in Waterbury to produce machines for the computer industry. Coffrin: "The original capitalization was over $1 million but it has since increased. The overseas investor likes what he sees here." The state ran an advertisement in *Capital*, a monthly German business publication. Coffrin was more than pleased by the results. "It was intended to be a one-shot deal but we plan to run it again." Thirty-five German firms responded to the advertisement. "Of all the advantages mentioned in the advertisement which the State of Vermont brings to potential investors, one item — the 'conscientious labor force' — especially attracted the attention of the German firms." Noting that events on the labor front in Europe have taken a different turn than in America's less-developed hinterland, Coffrin added, "We will concentrate more on this item and on Vermont's quality of life in the future." Vermont will be making a concerted effort to encourage investment from the Federal Republic beginning in the fall, as regularly scheduled trips to Germany are on the agenda. The effort may well be successful. As one executive from Karl Suss puts it, "They offer an entire range of incentives, from financing to training programs and relocation expertise."

One problem for the German investor in America of late is of course the exchange rate problem. The high dollar has forestalled certain investments, if perhaps the most speculative, and exchange rate swings have indeed provided some of the explanation for the big upturn in German investment in this country during the 1970s. Why shouldn't currency developments continue to hold a decisive influence now? For one thing, since the inauguration of the international floating rate monetary regime, the German investor has become much more sophisticated in coping with the problem of currency fluctuations. Hans A. Middelberg, a New York-based consultant who handles US investments for German clients explains: "Nowadays the decision to invest is not made quickly. One should prepare to be ready to move into the dollar at least a year or so before the investment is made." Another expert agrees: "Particularly for the small player this is very important. Go into the dollar first, *then* get ready to invest. And when you are in the dollar, *stay* in the dollar market." The investor must, particularly in the American real estate market, be fully aware of how prices and interest rates adjust. Middelberg: "If you wait too long for money rents to fall, you can be sure that the prices of assets will rise correspondingly." Considerable circumspection must be exercised.

Will high US interest rates and the strong dollar inhibit German direct investment in the near future? Coffrin: "It's really too early to forecast. After all, the dollar has been this strong only during the last sixteen months." Despite the growing awareness on the part of investors of the necessity to plan for currency volatility, "If the high dollar continues, substantial investment by small and medium-sized firms may be nipped off."

Whatever happens on the international monetary scene, one trend should persist: German investors will continue to familiarize themselves with the challenge of the American market. As one investment consultant expressed it, "Germans will hesitate to invest abroad on the basis of their investment psychology. They have always done so. What the German investor wants — and what he has been finding in the United States — are sound projects that will be profitable in the long term. The German investor has never been a speculator." ■

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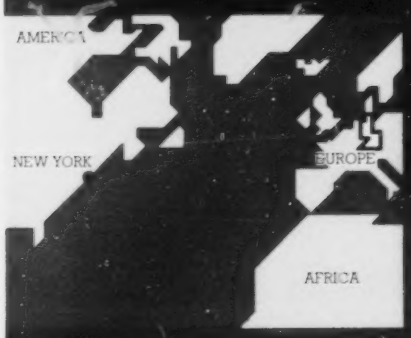


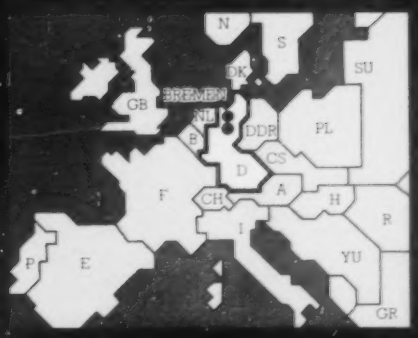


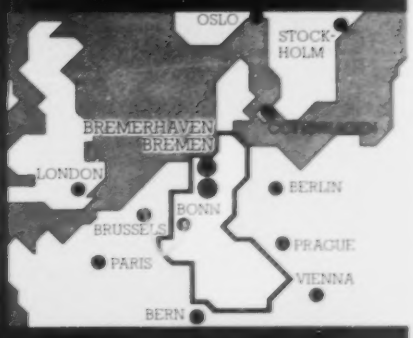

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# Manpower Planning: An Often Overlooked Critical Aspect in Forming a Successful U.S. Subsidiary

**Earl E. Eisenbach**

The United States continues to be the promised land in the West for international companies. Over the past fifteen years an increasing number of large foreign companies has established a presence in the U.S. by starting up operations, acquiring companies, and entering into various joint ventures. We are now witnessing a second wave invasion of middle-sized and even small companies whose interest goes beyond sales organizations to the actual establishing or acquiring of operating and/or manufacturing divisions.

These newcomers, aware of the vast markets, political stability and available American technology, are flocking to the U.S. in rather large numbers. Most of them retain lawyers and seek the advice of marketing consultants, bankers and financial consultants. By and large, they develop well-thought-out business plans and identify certain market "niches" to go after. However, there is one vital concern which often turns out to be most critical not dealt with in depth in the planning stage — the matter of staffing these operations and coordinating and controlling them.

The most frequently recurring problem I see in foreign investment in the U.S. is obtaining adequate management for the operations. By the time the company does begin to deal with this matter, many decisions and considerable investments have already been committed. Without some assistance, there is no way the company can anticipate all of the implications and pitfalls of manuging a U.S. subsidiary until they are knee-deep in the project and under pressure to move quickly. As the problems begin to surface, they all of a sudden snowball into an extremely difficult situation.

This happens because no serious attention was given in the planning stages to manpower planning and the management and control of the subsidiary. For example, the decision to staff a new start-up operation is made early on and dismissed as a rather simple matter. As a company gets more deeply involved in the U.S. operation, all sorts of problems arise which, if anticipated, could have been taken into consideration in the overall strategy. There are many pros and cons in hiring an American manager versus transferring a manager from the par-

*Mr. Eisenbach is President of Earl Eisenbach and Associates, Inc., an executive search firm in New York, N.Y.*

ent. There are many options in how to manage a U.S. subsidiary. This is no simple business decision, but an extremely complex situation with many factors to be considered.

In the case of an acquisition, the company assumes it is buying management and that, with some effort on everyone's part, the problems can be solved. However, this is almost never the case. Certainly it makes sense to retain, at least initially, the management of the acquired company. While each party enters into such arrangements in good faith, it becomes obvious in a short time that there are very basic differences in management styles and philosophy. It is wrong to assume that management can simply be "brought." The U.S. managers have been used to being in charge. It is an unwelcome intrusion now to be concerned with reporting relationships with different goals and philosophies. Besides, the buyers have made the sellers wealthy and, with financial independence, they have the freedom to do as they please.

In the case of joint ventures, it doesn't take much imagination once the honeymoon is over to speculate on the kinds of problems that will develop. It is not surprising to find within a year of an acquisition or joint venture that about half the companies involved experience a change in top management with the rest usually reorganized in some fashion.

The point is this — the international company should early on in the planning stage explore in great detail the manpower requirements and basic philosophy of how to control and manage the U.S. subsidiary. These conclusions should be a part of the entire plan. Once this is accomplished the other necessary concerns will be integrated into the whole plan and the company can proceed with confidence and fewer surprises.

When the time comes, the company can assess the management in its own firm plus the management in the acquired company and make the necessary decisions. The company can then also decide if it needs to hire from the outside as well. In many cases it will be necessary for the parent to recruit senior-level executives for the U.S. subsidiary. The entire team cannot be transferred over, nor present management be expected to remain intact. This leads us to ask how the company can recruit the Americans it needs for its critical positions. The company knows that the candidates it requires must have an unusual combination of skills. They obviously must be competent in managing the business. In addition they must have sufficient understanding of the new owner to win his confidence and interpret the business to him in a way which permits him to influence its direction.

It should be the goal of the parent to put the best possible candidates into the key positions of the new company. Companies are used to hiring lawyers, accountants, and management consultants of various types in planning a new venture. Yet when it comes to seeking the assistance of an executive search consultant to provide direction and a method to select the best possible candidates, many companies simply do not explore this option.

It is certainly understandable, since in their homelands executive search is not extensively used. Since the parent is constantly developing its own people, very few positions ever need to be filled from the outside. While this method of operation is the logical one there, here in the U.S., in a venture with unique requirements, the filling of positions needs to be handled differently. Fortunately more and more international companies are availing themselves of executive search services with very positive results. While this is not the sort of thing which companies broadcast, it is a known fact that it is happening.

The company that engages an executive search firm with experience in recruiting for U.S. subsidiaries often gets more than it expected. Aside from the search firm seeking out and presenting suitable candidates for selection that represent the best possible candidates available, there are other secondary benefits. The search firm can conduct the assignment to provide additional information and clarification of business plans which not only will aid in the selection of the right candidate, but will offer valuable insights as to the running of that company.

Here are several examples of the dividends that come out of the search process:

1. An overall review in defining the business plans and the position — executive search is custom service. It is a methodology whereby a client hires a consultant to fill a position with very exact and unique requirements. This very exercise of conceptualizing and communicating to the search consultant what is planned and required provides an opportunity for an overall review. Any reputable search firm will expect that the plans and requirements have been carefully completed and will be basically sound, for the firm knows from experience that if sufficient planning hasn't been done, it will be unable to satisfactorily fill the position. The search consultant wants the company to be successful, for his reputation is at stake as well.
2. An additional source for valuable industry and marketing information — the search firm will generate candidates that have a proven track record in the particular industry of the new business. By interviewing and discussing the new position with these candidates, valuable information is passed. Incidentally, the name of the client is withheld until there is sufficient interest on both sides and, of course, the candidates have assurances that their inquiries are to be absolutely confidential, so the search consultant is in a position to glean and pass on to the client additional information about the industry and competing companies. The search firm doesn't take advantage of possible candidates by asking confidential information which could hurt their companies, and by the same token advises the client on what they should devulge to potential candidates about their plans. This enables the company to look over the best possible candidates, and for the candidates also to seek for opportunities without compromising themselves. Extremely valuable insights and information come out of this process. The search firm provides the atmosphere and vehicle for this dialogue to take place.
3. The search firm motivates the desired candidate to accept the offer — the assignment is complete only when the position is filled. The search firm's goal is not just to fill the position, but for the company to be able to attract the best candidate for the position. The consultant is the active third party in the negotiations. He has the confidence of both client and candidates and acts as a broker dealing with any concerns that surface on either side. The candidates are accomplished executives and very gainfully employed, so often the search consultant can steer the desired candidate toward serious consideration of the

position. The search consultant knows how to handle delicate and sensitive matters as well as how to be in a position to highlight the benefits of his client's offer. His third party role provides a successful conclusion in which the client and candidate are both satisfied.

4. The last dividend has to do with getting the company and candidate started on the right foot — the search firm has carefully managed this process so that both parties are enthusiastic in anticipation of their new venture together. All concerns have been dealt with and, in addition, very sound relationships have started to form. The search consultant has been careful to see that this process takes place. The integration process has already started before the candidate ever reports to work.

While the use of executive search as an effective management tool has proven itself, the success of the assignment, like any other business endeavor, is based on two factors: the selection of the appropriate search firm for the requirement, and the ability of both the client and consultant to build a close working relationship.

In selecting the search firm, there are several questions which the prospective client should ask the search firm:

1) What kinds of companies does the firm serve?
   The answer will help the client determine the capability of the firm for its particular assignment. For example, if the firm is used to working with Fortune 500 companies only, they may not appreciate the operations and sensitivities of an international company nor have an appreciation for the cultural and business philosophy of the parent company.
2) How much experience does the firm have in this type of assignment?
   It is necessary to know the firm has had sufficient exposure in the client's industry to have an adequate level of experience. The previous assignments mean the firm will know where to find attractive candidates and how to evaluate them.
3) Who will actually be conducting the search?
   The client needs to know this in order to assess the capability and experience of the professional completing the assignment.

Secondly, the client and search firm need to establish a close working relationship. The ability to work hand in glove is required at various critical stages of the search process. The firm brings years of business experience and expertise in recruiting to the client. The client should be open to seek the advice and suggestions the consultant will make during the assignment. The firm is very attuned to the dynamics of the process and knows how to handle candidates and prevent problems from developing. A good rule of thumb is to communicate freely with the firm and seek its counsel.

Executive search provides a unique methodology for international companies to look over the best available talent and select the candidates who fit the requirements for their U.S. subsidiaries. At the same time, because of the confidential way in which executive search is conducted, executives have the opportunity to advance themselves on their track records and potential. To international clients, sojourners in a strange land, it is indeed a valuable asset in assuring the success of the new venture. ■


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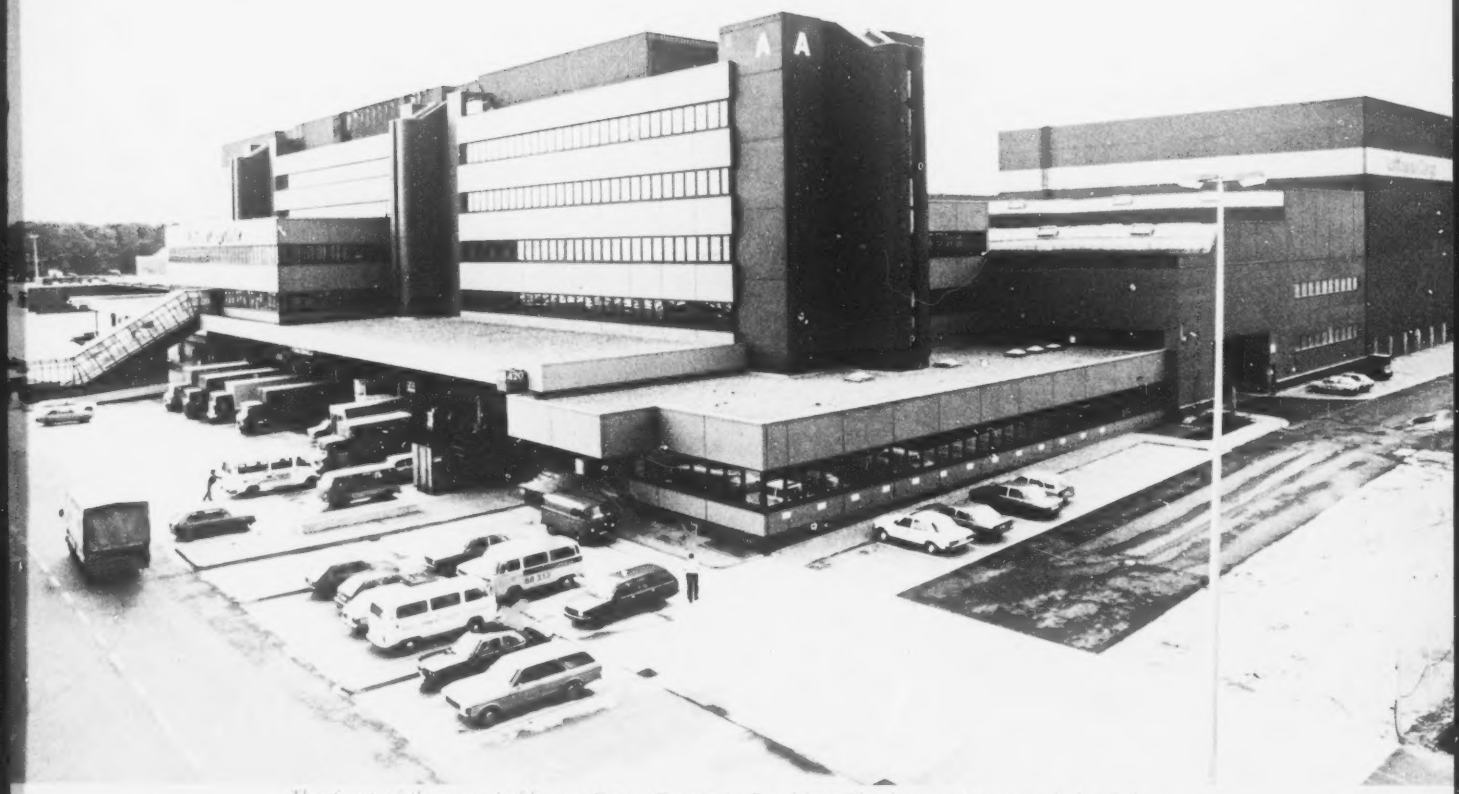
# German-American Economic Review in Figures

| | Federal Republic of Germany | | | | | United States | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | | | 1980 | 1981 | 1982 | | |
| | | | March | April | May | | | March | April | May |
| **FOREIGN TRADE** (in mil. $, DM) | | | | | | | | | | |
| Imports | 188,000 | 163,907 | 35,360 | 33,063 | 30,585 | 249,249 | 261,153 | 20,823 | 17,387 | 21,508 |
| Exports | 192,860 | 176,085 | 41,756 | 36,502 | 35,582 | 220,684 | 233,533 | 20,160 | 17,843 | 18,218 |
| Balance on merchandise trade | 4,859 | 12,178 | +6,396 | +3,438 | +4,997 | −28,565 | −27,620 | −663 | −456 | −3,290 |
| **U.S.-GERMAN TRADE** | ($M) | ($M) | (DM M) | (DM M) | (DM M) | ($M) | ($M) | ($M) | ($M) | ($M) |
| U.S. imports from Germany | 11,822 | 11,502 | 2,612 | 2,373.3 | 2,489.9 | 11,681 | 11,379 | 1,097.7 | 990.4 | 1,082.8 |
| (+) (−) % from previous year | 4.3 | −2.7 | +30.7 | +16.1 | +25.4 | 6.6 | −2.6 | +1.2 | +1.0 | +1.0 |
| U.S. exports to Germany | 14,156 | 12,611 | 2,800 | 2,692.6 | 2,326.9 | 10,732 | 10,075 | 1,176.9 | 1,123.6 | 1,008.2 |
| (+) (−) % from previous year | 27.8 | −10.9 | +4.0 | +15.0 | −7.9 | 29.7 | −6.1 | −7.8 | +3.6 | −9.4 |
| Balance on U.S.-German trade | −2,334 | −1,109 | −189 | −319.3 | +163.0 | −949 | −1,304 | +79.2 | +133.2 | −74.6 |
| **INDUSTRIAL PRODUCTION** | | | | | | | | | | |
| (+) (−) % from previous year | −0.4 | −1.8 | — | — | — | −3.6 | 2.7 | — | — | — |
| Iron and steel | −3.3 | −2.6 | +3.8 | +1.9 | −2.3 | −18.9 | 7.9 | −1.5 | — | — |
| Machines, exc. elec. | 3.4 | −1.2 | −0.6 | −2.8 | +1.7 | −0.7 | 5.0 | −1.1 | −1.1 | — |
| Electrical machinery and equipment | 3.2 | −1.6 | +11.4 | +7.9 | +7.1 | −1.3 | 3.4 | −1.03 | −1.03 | — |
| Chemicals | −4.0 | 1.6 | −19.7 | +2.8 | +5.7 | −2.4 | 4.1 | −1.09 | — | — |
| Road motor vehicles | −4.6 | 3.1 | +11.4 | +12.3 | +9.1 | −25.7 | 2.8 | −1.19 | −1.17 | — |
| Textiles | −0.9 | −8.2 | +1.1 | −0.3 | +4.1 | −5.7 | — | −1.08 | — | — |
| Apparel | −5.1 | −6.6 | −5.5 | −9.8 | −7.8 | — | — | — | — | |
| **LABOR MARKET** | | | | | | | | | | |
| Population (in mil.) | 61.7 | 61.7 | — | — | — | 227.7 | 229.8 | — | — | — |
| Civilian labor force (in 1000) | 25,833 | 25,680 | — | — | — | 106,940 | 108,670 | — | — | — |
| Unemployed (in 1000) | 889 | 1,272 | 1,811 | 1,710 | 1,646 | 7,637 | 8,273 | 9,854 | 10,307 | 10,549 |
| Unemployment rate (in %) | 3.8 | 5.5 | 7.6 | 7.2 | 6.9 | 7.1 | 7.6 | 9.0 | 9.4 | 9.5 |
| Gross hourly wages in manufacturing (in DM or $) | 13.41 | 14.19 | — | — | — | 7.27 | 7.98 | — | — | — |
| (+) (−) % from previous year | 6.9 | 5.8 | — | — | — | 10.9 | 9.8 | — | — | — |
| **PRICES** (+) (−) % from previous year | | | | | | | | | | |
| Consumer Price Index | 5.5 | 5.9 | +5.2 | +4.8 | +5.3 | 13.5 | 10.4 | +5.3 | +5.0 | +5.5 |
| Producer Index | 5.5 | 5.9 | +6.0 | +6.2 | +7.3 | 5.8 | 13.5 | +4.1 | +3.4 | — |
| Producer prices for ind. products | 7.5 | 7.8 | +6.7 | +6.3 | +6.9 | 16.1 | 10.7 | +6.6 | +6.0 | — |
| **CURRENCY EXCHANGES RATES** (avg.) | | | | | | | | | | |
| Value of $1.00 in DM | 1.8158 | 2.2610 | 2.37 | 2.39 | 2.30 | | | | | |
| Value of DM 1.00 in $ | | | | | | 0.5509 | 0.4436 | 0.421 | 0.418 | 0.401 |

| | 1980 | 1981 | 1981-1982 | | | | 1980 | 1981 | 1981-1982 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | II | III | IV | I | | | II | III | IV | I |
| **NATIONAL ACCOUNTS** | | | | | | | | | | | | |
| Gross National Product at current prices | 1,513 | 1,579 | 1,692 | — | 2,626 | 2,922 | 2,886 | 2,965 | 2,998 | 2,995 | | 2,998 |
| (+) (−) % from previous year, real terms | 1.8 | −0.3 | −0.7 | 0.4 | 0.6 | — | −0.2 | 2.0 | 3.2 | 3.0 | 0.9 | −3.7 |
| Balance on current account (in mil. M or $) | −29,538 | −17,265 | −6,090 | −11,365 | 9,301 | +848 | 3,723 | 6,578 | 1,212 | 2,115 | −85 | 1,180 |
| Monetary reserves (in mil. $) | 55,000 | 49,925 | 54,374 | 53,050 | 49,925 | 67,800 | 26,760 | 30,070 | 29,580 | 29,710 | 30,070 | 39,537 |
| Direct investment, cumulative at period end (in mil. DM or $) | | | | | | | | | | | | |
| — German investment in the U.S. | 74,162 | 83,962 | 78,471 | — | 83,962 | — | 213,468 | — | — | — | — | — |
| — U.S. investment in Germany | 15,664 | 18,971 | 16,821 | — | 18,971 | — | 15,393 | — | — | — | — | — |
| Foreign direct investment | 57,616 | 61,616 | 59,469 | — | 61,616 | — | 65,483 | — | — | — | — | — |
| — U.S. investment in Germany | 20,312 | 20,718 | 20,582 | — | 20,718 | — | | | | | | |
| — German investment in the U.S. | | | | | | | 5,290 | — | — | — | — | — |

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
U.S. Department of Commerce
U.S. Department of Labor
Federal Reserve System
International Monetary Fund

# Lufthansa Air Cargo on the Fast Track

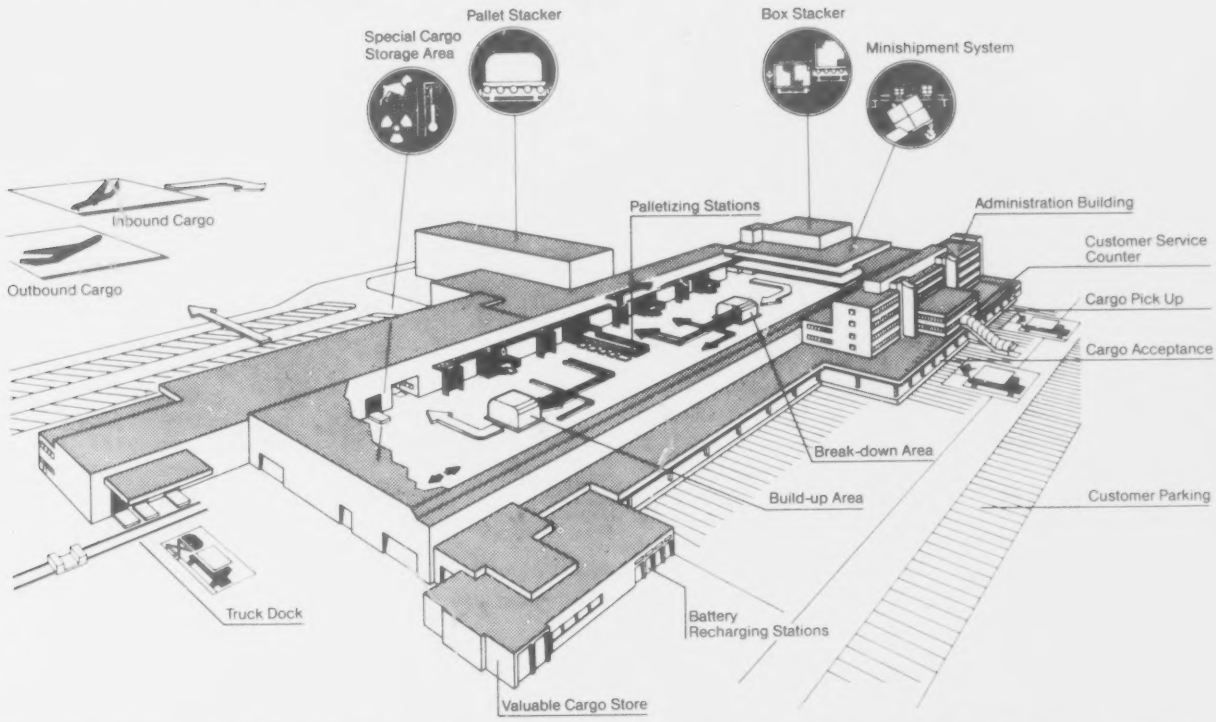


*The front of the new Lufthansa Cargo Center in Frankfurt. The box storage area behind the administration building can take up to 5,516 boxes for medium-sized shipments. This is the most modern airfreight facility in the world.*

Twenty years of planning and development reached a symbolic culmination on June 30 with the inauguration of the new Lufthansa Cargo Centre at the Frankfurt Freight Terminal. Featuring the latest and most sophisticated technology, the LCC took four years to build and is the world's largest cargo handling facility. While the actual structures of the freight handling and administration buildings were built by the airport management company, Flughafen Frankfurt Main AG, Carl Schenk AG of Darmstadt was prime contractor for the complete freight handling, warehousing and control system, with a contract worth of some DM 120 million. The total costs of approximately DM 250 million for property development, premises, and for the storage, conveyor systems and related electronic represent the largest single Lufthansa investment ever in a ground facility.

Behind this historic commitment stand some convincing statistics. Around 20 percent of Lufthansa's revenues now derive from its air freight business. Last year, Lufthansa handled 408,000 tonnes of air cargo in Frankfurt, up from only 42,000 tonnes in 1964. Over the last 20 years, the number of shipments and the volume by weight have grown twentyfold, and the number of pieces by a factor of 15. The previously utilized Freight Yard 3 had

# Lufthansa Cargo Center Frankfurt



*Energy saving. The ceiling of the transhipment hall is designed to allow as much daylight as possible. To speed work, empty boxes are kept in magazine fashion at the same height as conveyor tracks.*

*At the command post of the Lufthansa Cargo Center, technicians oversee the operation of the transport and storage systems. Any disruption is shown on the illuminated circuit diagram, and the problem is rectified immediately.*

*Here incoming freight is transferred to large pallets and all information, such as airway bill number and load unit number, is keyed into the computer.*

long reached the limits of its capacity.

The new Lufthansa Cargo Center features the latest automated conveyor and storage facilities. With the aid of computers, shipments are automatically forwarded to or retrieved from the appropriate high-rise storage racks, depending on type and size. For deliveries and pickups of freight originating from or bound for the Greater Frankfurt area, 75 truck processing positions are available at the ramp.

Geared to Frankfurt's 75 percent transit cargo share, a figure matched by no other cargo center worldwide, the newly-created installation permits fast, systematic distribution of cargo shipments flying in from all continents. The flexible design of the LCC allows demand-oriented adaptation to future increases in air cargo volume. All of the cargo center's component system can be expanded independently of one another, with reserves ranging from 30 to 100 percent.

Freight handling capacity of the initial LCC construction phase is rated at an annual cargo volume of 425,000 tonnes. Counting special direct plane-to-plane contained transfers, total capacity of the Lufthansa cargo operation in Frankfurt amounts to 550,000 tonnes a year.

The Lufthansa Cargo Center is part of the Frankfurt Freight Terminal which has sprung up on the western portion of Rhine-Main Airport during recent years. The Lufthansa Cargo Center alone accounts for more than 50 percent of all cargo volume here at Europe's largest air cargo transhipment point. Lufthansa also handles cargo processing for 25 foreign airlines here.

Construction of the cargo facility began on October 19, 1977. Laying of the cornerstone for the conveyor and storage systems followed on April 3, 1978. Parallel to construction, extensive prototype pilot tests were conducted among suppliers to achieve the best possible configuration from an engineering and operational standpoint. Installation of the automated conveyor and storage facilities, as well as the diverse electronic systems, took more than 2½ years. Following completion of the entire facility was a 7-month test of the technical systems and in-depth training of the LCC staff, culminating in 2-month full-scale operational trials at the end of January 1982. A phased move of the cargo handling operation into the new Lufthansa Cargo Center began on February 8, 1982, and was completed by the end of March.

To process the more than 50,000 cargo items handled daily, and to fulfill the LCC's function as interface of the entire Lufthansa route network, 1,200 Lufthansa personnel work in 3-shift operation for physical and documentary cargo processing.

With its new Frankfurt cargo center, Lufthansa has created a facility capable of delivering the best possible service for cargo clients, even with rapidly mounting cargo volumes — thanks to pacesetting design and sophisticated engineering utilizing the latest automated materials handling technology. And it puts the Red Baron right where he feels most comfortable — on the fast track. ■

# Tax Savings to the German Investor Acquiring a U.S. Business

**P. Michael Baldasaro**

**Hans Zschiegner**

## INTRODUCTION

The Economic Recovery Tax Act substantially reduced the tax burden on U.S. business to the point that U.S. businesses are taxed at one of the lowest effective rates of any developed country in the world. To a German investor, this increases the attractiveness of investing in the United States. This article will discuss the techniques that can be used to derive the maximum tax benefits from the acquisition of a U.S. business. Its purpose is not to make the reader a U.S. tax specialist, but to illustrate the way in which active tax planning can make an investment in the United States even more profitable.

Because it could be the subject of an extensive article on its own, the problems of investment in U.S. real estate will not be covered. Also, space does not permit the discussion of tax-planning for German executives assigned to the United States. This is an area where careful tax planning can pay big dividends to both the employee and employer and one which should be carefully investigated if any assignments of German or other non-U.S. personnel to a U.S. operation are contemplated. Furthermore, it is essential that this planning be done before the U.S. assignment is commenced, as many options are foreclosed upon entry into the United States.

Finally, this article will not discuss the many tax and non-tax incentives that many states and municipalities have available to encourage investment in their areas, but a careful investor will not overlook these items.

Througout this discussion, there will be comments regarding possible changes in the law. Both because of the budget deficit and because there is a perception that the Economic Recovery Tax Act may have been too generous to business, many amendments to the law have been proposed. It is highly unlikely that all of them will be passed, but it is impossible to forecast the changes that will be enacted. Overall, the basic attractiveness of investing in the United States should be unimpaired, and the conclusions presented

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here unaffected, but the many proposed amendments make it particularly important that a competent tax advisor be consulted regarding any of the investment strategies discussed below.

There are four basic forms of structure that are appropriate to investment in the United States. They are:

1) Branch of a German company
2) Subsidiary
3) Subsidiary and U.S. holding company
4) Possessions corporation

The decision on which to use depends on a number of factors which are interrelated; thus, a neat step-by-step checklist which will give a black and white answer cannot be compiled. Instead, each individual situation must be reviewed and items such as the type of investment being made, the level of capital required, time at which it will become profitable both for tax and financial purposes, nature of assets used, whether the earnings will be repatriated or reinvested, and German tax laws, among others, have to be weighed against each other. The fact that the hypothetical target company is presently operating in corporate form does not preclude part or all of its operations from being converted to branch form. Also, while the prime concern should be the Federal tax, the U.S. system of government encompasses three levels of jurisdiction: Federal, State, and Municipal, all of which can, and do, impose taxes at sometimes significant rates. These taxes are, however, deductible for Federal purposes.

## FIRST STEPS — FINANCING AND CAPITAL STRUCTURE

The most obvious method of investing in the United States is simply to use cash, either from retained earnings, capital or a loan from a friendly bank, to buy stock of a presently successful U.S. company. Alternatively, it is possible to just buy a factory, or a product division. When such an acquisition is made via a U.S. subsidiary, a major question will be how much of the purchase price should be debt and how much equity. For purposes of this discussion, it will be assumed that the investment objective is the acquisition of a controlling interest in a U.S. corporation.

### Debt-Equity Ratios

Normally, it pays to capitalize a U.S. operation with as much intercompany debt as possible. The advantage to intercompany debt is that the interest paid to the parent company and others is deductible from U.S. taxable income and therefore not subject to U.S. income tax. Furthermore, the U.S.-Germany income tax treaty reduces the U.S. statutory withholding tax rate of 30% to zero on interest paid to German recipients. This is obviously preferable to the 15% applicable to dividends. The one drawback is that the interest received in Germany is subject to tax as ordinary income, whereas dividends received by a German parent are generally free of German taxation.

Because the Internal Revenue Service is as aware of the virtues of intercompany debt as investors are, it requires a reasonable proportion of debt to equity, usually 3 to 1 for "inside" debt, and no more than 10 to 1 overall. These rules are embodied in a set of regulations promulgated under U.S. Internal Revenue Code Section 385 that are now scheduled to become effective no sooner than January 1, 1983. However, this date has already been postponed several times and there is speculation that they may be withdrawn entirely. Also, legislation that would delay their effect has been suggested; however, there is also case law that supports these ratios.

### Deep Discount Bonds

Regardless of debt-equity ratios, a particularly attractive tax-saving method of financing a U.S. acquisition is via the use of deep discount bonds which have become popular in the United States within the past year. So popular, in fact, that legislation is being considered to curtail their advantages. Deep discount bonds are bonds which have a low or zero coupon rate, and are therefore sold at a substantial discount from face value. In two public offerings of such securities, one issue, maturing in 25 years with a coupon rate of 6% sold for approximately 50% of face value, the other, with an eight-year maturity and no coupon rate, sold for roughly a third of face value. Of course, when the bonds mature, the holders will be entitled to face value. How does this help save taxes?

The U.S. issuer of the bonds can deduct the interest accruable annually on a pro-rata basis, even though no interest is actually paid until maturity. A U.S. buyer of the bonds is required to accrue interest in the same manner, but if the bonds are held by a German foreign lender that reports income on the cash basis is it possible to defer the inclusion of the interest income, and its consequent German taxation, until maturity. The resulting cash-flow advantages are considerable, though it is sometimes necessary to use a non-U.S. finance subsidiary to achieve maximum benefits.

The possible permutations on this basic concept are nearly infinite, and the optimum result for your specific situation can only be achieved by carefully tailoring the principle to fit your facts.

Regarding the financing techniques just described, it is important to make a major caveat about buying a corporation: if the target corporation has tax losses, it may not be possible to carry them forward to years subsequent to the purchase of the corporation's stock. Specifically, Code Section 382 limits the ability of a corporation to carry forward losses after control has been transferred to parties unrelated to the previous shareholders. There are two sets of rules: those presently in effect, which are relatively lenient, and those scheduled to go into effect after June 30, 1984, which are far more severe.

Prior to June 30, 1984, the law provides that a net operating loss (NOL) deduction may not be carried forward if at the end of the corporation's taxable year one of its ten principal shareholders own a percentage of the corporation's outstanding stock (taken at total fair market value) that is fifty percentage points or more greater than the ownership at the beginning of the same taxable year; the increase results from a purchase of stock from an unrelated person *and*; the corporation has not continued to carry on a trade or business substantially the same as that conducted before any change in stock ownership. This loss of the availability of the NOLs does not apply in acquisition from related parties to the extent ownership is already attributed to the purchaser.

For transactions that occur after June 30, 1984, a new set of rules applies. Generally, net operating loss carryovers will be reduced or lost if on the last day of a taxable year of a corporation, a person owns directly or indirectly a percentage of the fair market value of the stock of the corporation which exceeds by more than sixty percentage points the percentage of such stock he owned at the beginning of the taxable year *or* the beginning of the first or second preceding taxable year and such income, in percentage points, is attributable to his purchase of the stock.

*There is no change in trade or business test under this new statute.*

It is possible that legislation will be enacted that will delay or even accelerate the application of these rules, but before structuring any transaction involving loss carryforwards, a buyer should ascertain whether those losses can be used after the acquisition.

## PURCHASE OF A GOING CONCERN

### Liquidation by Seller

When investor's goals can best be served by acquiring an existing U.S. operation, the option to purchase stock or assets may be available. Frequently it will be advantageous to purchase assets, since depreciation of all equipment and buildings will be on the basis of the purchase price rather than their historical basis. The 10-5-3 provisions of the new tax law are also significant here. A purchaser of assets becomes a new user eligible for 10-5-3 year depreciation for all assets acquired. If shares are purchased, the target company would be required to continue to use the old lives for pre-1981 assets.

Section 337 of the Code allows the shareholders of a corporation to liquidate it and receive capital gains treatment on the assets distributed in liquidation, while the corporation recognizes neither gain nor loss on the sale of assets to the buyer. The purpose of this provision is to permit shareholders of corporations to obtain the same tax results from a sale of either assets or stock. Otherwise, when a U.S. corporation sold appreciated capital assets prior to liquidation, it would be subject to tax on the gain, and the shareholders would also be taxed when the income was distributed to them. Here is the balance sheet of a hypothetical U.S. target corporation (Amounts in thousands):

| | Tax Basis | Fair Market Value |
|---|---|---|
| Cash | 1,000 | 1,000 |
| Inventory | 12,000 | 13,000 |
| Receivables | 20,000 | 20,000 |
| Land | 5,000 | 10,000 |
| Buildings-Net | 15,000 | 30,000 |
| Equipment | 17,000 | 20,000 |
| Trademark | | 4,000 |
| Goodwill | | 12,000 |
| | 70,000 | 100,000 |
| Liabilities | 50,000 | 50,000 |
| Capital & Retained Earnings | 20,000 | 50,000 |
| | 70,000 | 100,000 |

In this example, the tax cost of the step-up in basis will be $3.75 million. The future tax benefits resulting from the fixed asset step up will be $7.5 million on the buildings, and $1.5 million on the equipment. In addition, the inventories have been written up by $1 million resulting in a future tax benefit of $.5 million for a total tax benefit of $9.5 million. These tax benefits will accrue over a period of several years, whereas the tax recapture will be due immediately. Accordingly, the cash flow costs at today's high interest rates must be factored into the equation.

Also, effective for plans of liquidation adopted after December 31, 1981, Code Section 336 makes the amount of the LIFO reserve, if any, subject to recapture. Legislation is presently pending that would push the effective date back two years, but its fate is uncertain.

The situation outlined above is based on a particular set of facts. Clearly, if the present fair market value of the buildings and equipment or inventories are significantly larger than their tax basis or if the recapture potential is not significant then purchasing assets to obtain a step-up in basis may make considerable sense. Again, remember that another important consideration is eligibiqity to use 10-5-3. As usual, the facts of the specific situation will determine the best course of action. If this acquisition strategy is to be pursued, the services of a competent appraiser should be obtained, as well as expert tax advice, as this area is loaded with pitfalls.

Of these assets, the buildings and equipment can be depreciated, and a "step-up" in their basis would allow depreciation on an additional $18 million. Also, this type of a liquidation qualifies the new corporate owner to use 10-5-3 for all of the depreciable assets of the target company. This is an extremely important new consideration in the acquisition of U.S. companies. Unfortunately, what the tax law gives it can also take away, in this case with the requirement that depreciation and investment tax credits previously claimed by the liquidated company must be "recaptured," that is, taken into income and subjected to the U.S. corporate tax just as if the assets were sold. Here's the computation:

### Liquidation by Buyer

What if the seller refuses to sell assets, but insists on selling stock? Section 334(b)(2) of the U.S. tax Code permits a recent acquirer of 80% or more of the stock of a corporation to liquidate the corporation, usually into a corporation formed to receive its assets, and increase

**Recapture Computation**

| | |
|---|---|
| Buildings: Cost | $ 20,000 |
| 1. Depreciation Claimed | 5,000 |
| 2. Tax Basis (Fair market value $30,000) | 15,000 |
| 3. Straight Line Depreciation | 1,500 |
| Amount for Recapture (1 minus 3) | 3,500 |
| Equipment: Cost | 22,500 |
| 1. Depreciation Claimed | 5,500 |
| 2. Tax Basis (Fair market value $20,000) | 17,000 |
| Amount for Recapture (1 limited to difference between 2 and FMV) | $ 3,000 |

**Total Recapture**

| | |
|---|---|
| Buildings | $ 3,500 |
| Equipment | 3,000 |
| Total | 6,500 |
| U.S. Tax (assume 50% rate) | 3,250 |
| Investment Tax Credit Recapture (Assumed) | 500 |
| Total U.S. Tax | $ 3,750 |

the value of those assets to the price paid for the stock of their corporate owner.

The same recapture rules that apply to Section 337 also apply to Section 334(b)(2), but, in the right circumstances, a post-sale liquidation can save money, just as a pre-sale liquidation can. It all depends on the specific facts of the situation.

### Stripping Out Intangibles

Note that the balance sheet of the hypothetical company includes $4MM allocated to trademarks. In the United States, trade or service marks or similar intangibles are not eligible for depreciation. However, a U.S. company can deduct royalties paid for their use. So, by transferring to a German or other non-U.S. corporation, trademarks and other intangible assets, such as patent rights, other copyrighted material, etc. and charging a royalty for their use, it is possible to extract profits from the United States free of corporate income tax. Depending on the jurisdiction to which the royalties are being paid, the U.S. withholding tax may be avoided as well; under the Germany-U.S. treaty, royalties are exempt from withholding tax.

If the intangibles are put into a tax-haven holding company, then the income they generate can be accumulated in the tax haven free of further tax unless the home-country tax law has a provision for taxing tax-haven income as Germany does. Also, royalties paid to a tax haven may be subject to a 30% U.S. withholding tax (consider using the Netherlands Antilles). There is an alternative: A number of high-tax jurisdictions, including Germany, allow a deduction for the depreciation of certain intangibles. If the intangibles can be depreciated in the home country so that the annual depreciation equals or exceeds the annual royalty income, there is, in effect, a net tax benefit for the cost of the intangibles which would otherwise not be amortizable in the United States. Therefore, consider having the intangibles purchased by a non-U.S. company at the time an acquisition is made.

## HANDLING TAX LOSSES

If the target company is expected to have taxable losses after the acquisition, operation in branch form should be considered.

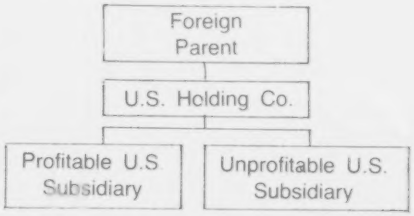
### Branch Operations

By converting the target company into a branch of the German parent, losses of the U.S. branch can probably be used to offset Head Office gains. Note that this is something to be considered in connection with either a Section 334(b)(2) or 337 liquidation. The branch concept allows avoidance of the 15% withholding tax on dividends and is useful when the parent company receives a tax benefit on its foreign losses, as in Germany. In Germany, it is also possible for affiliated German corporations to file a unified tax return as an *Organschaft*. These two concepts can be combined to allow formation of a German subsidiary to engage in the U.S. business. Its start-up losses (computed under German tax principles, not U.S. ones) will flow back to the present company through the *Organschaft*, yet the parent is insulated from the vicissitudes of its U.S. operations by the fact that the operation is in a subsidiary.

For U.S. purposes, the German subsidiary will be considered a foreign corporation actively engaged in a trade or business in the United States. If a treaty applies, as is the case with Germany, the subsidiary's activities would normally constitute the maintenance of a permanent establishment in the United States. Regardless, it would be subject to U.S. taxation after becoming profitable, but would be entitled to all of the incentives in the U.S. tax law. Thus, it would be generating loss carryforwards to be used against U.S. tax liability at some future time, and foreign losses that generate an immediate benefit on the Head Office books.

### Consolidated Returns

An already active, tax-profitable U.S. operation, can simply be expanded to include new operations, or a separate subsidiary to carry on the new business can be incorporated, thereby insulating the profitable operation from problems that may crop up in the new business. By creating a U.S. holding company to hold subsidiaries the tax benefits of a single operation can be combined with the advantages of separate subsidiaries. The resulting corporate structure would look like this:




Under Code Section 1501, the holding company, as long as it holds at least 80% of the stock of the operating companies, can file a consolidated return for itself *and* the two subsidiaries, if all of the corporations agree. Losses of the group offset gains, and dividends received by the holding company are eliminated from taxable income. When dividends are declared by the holding company to its foreign parent, they will be entitled to whatever benefits would otherwise be available. However, to be eligible to file consolidated returns, all members of the group *must* be U.S. corporations. Foreign corporations are generally not permitted to join in the filing of a consolidated return.

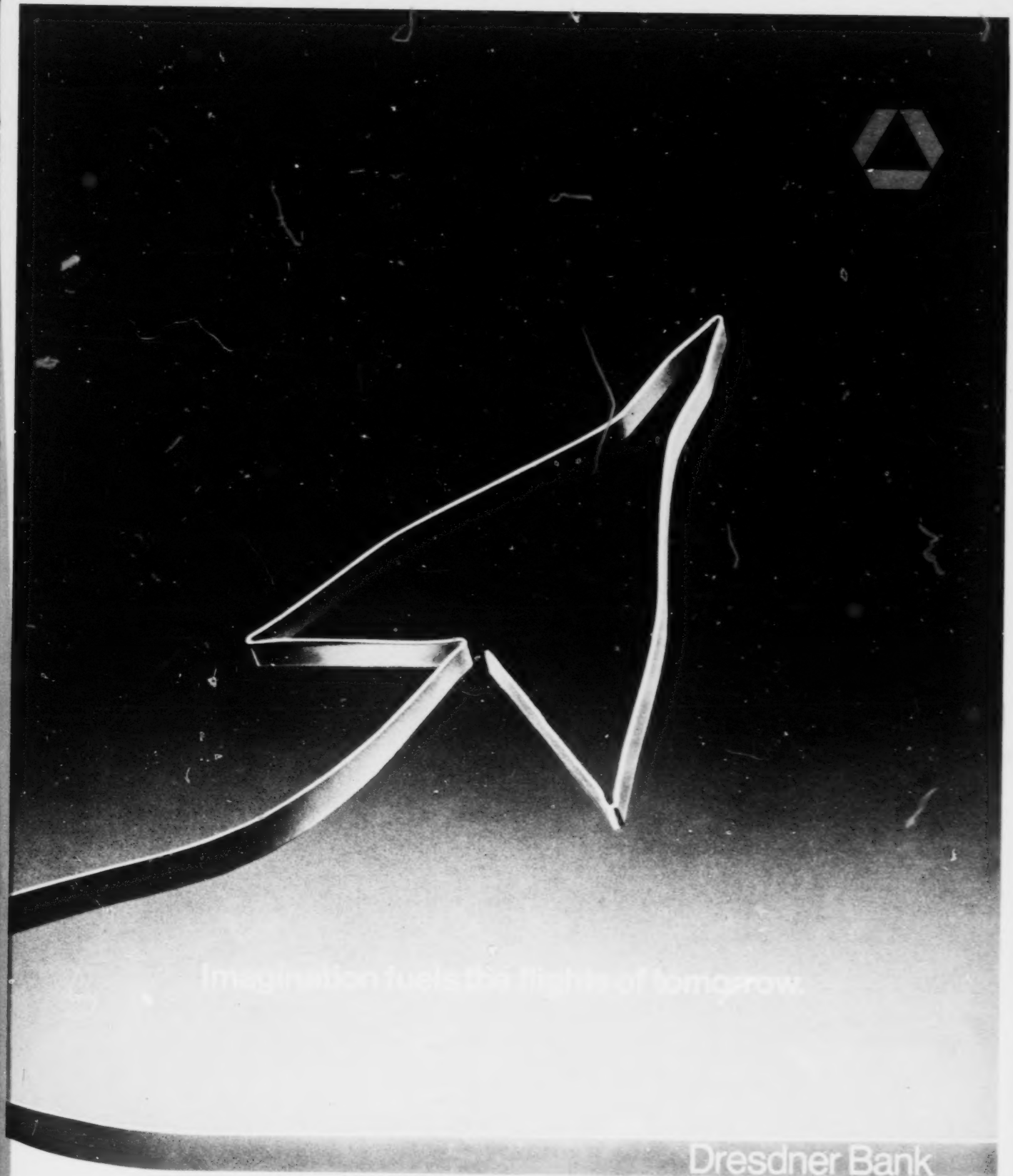
### Leasing

If, because of losses, the tax benefits from owning equipment can't be utilized, the tax benefits can be shifted to the lessor by leasing the equipment. In such a case the lessor and lessee negotiate the sharing of the tax benefits as a reduction of the rental payments. Such a sharing effectively reduces borrowing costs, in some cases by as much as three percentage points. While the new tax law has liberalized the leasing rules making this result easier to obtain, there is now considerable sentiment in Congress to rescind or modify these new benefits.

## SPECIAL "TAX SPARING" REGIME FOR PUERTO RICO AND OTHER U.S. POSSESSIONS

Liberal tax benefits amounting to tax sparing are available to companies setting up manufacturing and service operations in Puerto Rico. In addition, Puerto Rico provides duty-free access to U.S. markets for products manufactured locally. These two factors make Puerto Rico the Ireland of the Caribbean.

Furthermore, under Section 936 of the U.S. tax code a company incorporated in the United States but generating 80% of its income from sources within U.S. possessions (i.e., Puerto Rico), and generating 50% of its income from the active conduct of a trade or business in Puerto Rico or another qualifying possession, is entitled to a credit for the amount of U.S. tax that would otherwise be due on its income if it so elects. In other words, it can elect to be exempt from U.S. taxes. Such companies are known as possessions corporations or 936 corporations. Coupled with a Puerto Rican tax holiday,

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the result is extremely low taxation of Puerto Rican operations. A final advantage is that dividends from possessions corporations are not taxable in the hands of other U.S. corporations and can be paid to a foreign parent subject to reduced withholding under the U.S. treaty network. Also, under the provisions of the Germany-United States tax treaty, dividends from a possessions corporation would not be taxed in Germany.

This has two implications to the German investor. First, a company that is already operating in the United States may be able to expand its operations into Puerto Rico and use the tax-free income to finance further expansion, both in the United States and in Puerto Rico. This should be particularly attractive to manufacturers, since, unlike all other tax havens, products manufactured in Puerto Rico are not subject to U.S. customs duties. Moreover, Puerto Rico is also strategically located for use as a base to sell to Latin America and the Caribbean.

Second, to foreign investors not yet active in the United States, Puerto Rico may be the most advantageous location from which to attempt to penetrate the U.S. market.

Under Puerto Rican tax law, a foreign investor setting up a manufacturing operation in Puerto Rico may apply for, and receive, exemption from income tax of up to 90% of net income and 100% exemption from municipal taxes, for periods of up to five years, with the exemption being gradually reduced for periods of up to twenty additional years under the initial approval. Under current law, an additional ten year extension may be granted. This results in an effective tax rate of 4.5% for the first five year period. There is also a "tollgate" tax of 10% on dividend remittances that can be reduced to 5 or 7 percent under certain circumstances. This exemption must be applied for *before* the start of operations.

## CONCLUSION

The purpose of this article has been to illustrate a few of the acquisition techniques that can save tax dollars on an investment in the United States. There are many ways to make such savings, and a prudent investor should investigate them all. Only basic techniques with a widespread application have been covered here; there are many more specialized techniques that will yield large tax savings when applied to a specific situation. Each situation is different; changing one fact may reverse the overall tax result. Failure to seize the opportunities presented by a given situation can cost you tax dollars and, by the same token, failure to appreciate a situation's pitfalls can be even more costly.

Most important of all, tax planning must be done before making the investment. Once the investment is made, mistakes may be irremediable. However, if properly structured, an investment in the United States can be acquired and operated for a relatively low cost compared to many developed as well as developing countries, and the 1981 tax law merely increases those opportunities. ■

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